

# **City of Grosse Pointe, Michigan**

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

# City of Grosse Pointe, Michigan

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# City of Grosse Pointe, Michigan

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## Independent Auditor's Report

To the City Council  
City of Grosse Pointe, Michigan

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

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

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

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

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

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

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

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

To the City Council  
City of Grosse Pointe, Michigan

### ***Opinion***

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

### ***Emphasis of Matter***

As explained in Note 1, the financial statements include investments in a pooled market fund valued at approximately \$36,870,000 (94 percent of the net position of the fiduciary funds) at June 30, 2017. This pooled market fund includes investments that may not be publicly traded and therefore do not always have readily determinable market value. Management's estimates are based on information provided by investment managers, general partners, real estate advisors, and other means. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material. 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 and required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Grosse Pointe, 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.

To the City Council  
City of Grosse Pointe, Michigan

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*

December 8, 2017

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Grosse Pointe, Michigan's (the "City") financial performance provides an overview of the City of Grosse Pointe, Michigan's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City of Grosse Pointe, Michigan as a whole and present a longer-term view of the City of Grosse Pointe, Michigan'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 of Grosse Pointe, Michigan's operations in more detail than the government-wide financial statements by providing information about the City of Grosse Pointe, Michigan's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Grosse Pointe, Michigan acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net position as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current and other assets	\$ 12,746.4	\$ 8,675.3	\$ 8,934.1	\$ 6,659.9	\$ 21,680.5	\$ 15,335.2
Capital assets	<u>10,705.9</u>	<u>10,474.3</u>	<u>15,694.8</u>	<u>15,767.6</u>	<u>26,400.7</u>	<u>26,241.9</u>
Total assets	23,452.3	19,149.6	24,628.9	22,427.5	48,081.2	41,577.1
<b>Deferred Outflows</b>	3,475.4	5,969.9	169.0	308.4	3,644.4	6,278.3
<b>Liabilities</b>						
Current liabilities	1,084.8	990.7	936.1	1,264.3	2,020.9	2,255.0
Long-term liabilities	<u>2,371.6</u>	<u>2,617.8</u>	<u>8,698.7</u>	<u>6,510.6</u>	<u>11,070.3</u>	<u>9,128.4</u>
Total liabilities	3,456.4	3,608.5	9,634.8	7,774.9	13,091.2	11,383.4
<b>Deferred Inflows</b>	<u>2,311.6</u>	<u>311.0</u>	<u>85.0</u>	<u>16.1</u>	<u>2,396.6</u>	<u>327.1</u>
<b>Net Position</b>						
Net investment in capital assets	9,810.8	9,379.3	9,361.7	9,130.8	19,172.5	18,510.1
Restricted	899.1	810.4	-	-	899.1	810.4
Unrestricted	<u>10,449.8</u>	<u>11,010.3</u>	<u>5,716.4</u>	<u>5,814.1</u>	<u>16,166.2</u>	<u>16,824.4</u>
Total net position	<u>\$ 21,159.7</u>	<u>\$ 21,200.0</u>	<u>\$ 15,078.1</u>	<u>\$ 14,944.9</u>	<u>\$ 36,237.8</u>	<u>\$ 36,144.9</u>

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis (Continued)

The City of Grosse Pointe, Michigan's combined net position increased by less than 1 percent from a year ago, increasing from \$36,144,877 to \$36,237,908. Last year's net position decreased by less than 1 percent. As we look at the business-type activities separately from the governmental-type activities, we can see that net position from business-type activities increased by approximately 0.9 percent.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased by approximately \$560,500 for the governmental activities. This represents a decrease of approximately 5.1 percent. This decrease is mainly due to the investment that has been made in capital assets and infrastructure in the current year. In the full accrual statements, expenses related to these capital assets and infrastructure are depreciated over their useful lives rather than expensed in the year constructed.

The following table shows the changes in net position during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Net Position</b> - Beginning of year	\$ 21,200.0	\$ 21,604.4	\$ 14,944.9	\$ 14,861.0	\$ 36,144.9	\$ 36,465.4
<b>Revenue</b>						
Program revenue:						
Charges for services	909.4	908.5	3,763.5	3,525.0	4,672.9	4,433.5
Operating grants and contributions	451.1	529.5	-	-	451.1	529.5
Capital grants and contributions	26.6	-	-	-	26.6	-
General revenue:						
Property taxes	5,885.7	5,841.7	-	-	5,885.7	5,841.7
State-shared revenue	504.1	476.0	-	-	504.1	476.0
Investment (loss) income	(27.1)	188.9	(16.5)	129.2	(43.6)	318.1
Cable franchise fee	134.7	133.4	-	-	134.7	133.4
Other	228.3	211.2	-	-	228.3	211.2
Total revenue	8,112.8	8,289.2	3,747.0	3,654.2	11,859.8	11,943.4
<b>Program Expenses</b>						
General government	1,504.6	1,369.7	-	-	1,504.6	1,369.7
Public safety	3,403.8	3,800.4	-	-	3,403.8	3,800.4
Public works	2,374.8	2,606.4	-	-	2,374.8	2,606.4
Recreation and culture	829.6	874.0	-	-	829.6	874.0
Interest on long-term debt	40.3	43.1	-	-	40.3	43.1
Water and sewer	-	-	2,536.7	2,517.3	2,536.7	2,517.3
Automobile parking	-	-	917.0	885.2	917.0	885.2
Marina	-	-	160.1	167.8	160.1	167.8
Total program expenses	8,153.1	8,693.6	3,613.8	3,570.3	11,766.9	12,263.9
<b>Change in Net Position</b>	(40.3)	(404.4)	133.2	83.9	92.9	(320.5)
<b>Net Position</b> - End of year	<u>\$ 21,159.7</u>	<u>\$ 21,200.0</u>	<u>\$ 15,078.1</u>	<u>\$ 14,944.9</u>	<u>\$ 36,237.8</u>	<u>\$ 36,144.9</u>



# **City of Grosse Pointe, Michigan**

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

### **Governmental Activities**

State-shared revenue is expected to remain fairly consistent. Property tax revenue and related charges posted a less than 0.80 percent increase, including a 0.3 percent inflation-capped increase from the increase in residential housing values. Property tax revenue is expected to increase slightly in the future, albeit capped by the rate of inflation, as the housing market continues to recover in southeastern Michigan.

Program expenses were held in check by department heads making every effort to control operating expenses and introduce efficiencies. Maintenance and capital equipment purchases that had been postponed continue to be reviewed and areas of concern are being addressed.

### **Business-type Activities**

The City of Grosse Pointe, Michigan's business-type activities consist of the Water and Sewer Fund, the Automobile Parking System Fund, and the Marina Fund. Water is supplied to residents from the City of Grosse Pointe Farms water treatment plant, and sewage is processed by the Detroit water and sewage system. All revenue in the business-type activities funds relies on charges to customers. Overall, operating revenue increased 6.8 percent and operating expenses decreased 2.0 percent from business-type activities.

### **The City of Grosse Pointe, Michigan's Major Funds**

Our analysis of the City of Grosse Pointe, Michigan's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Grosse Pointe, Michigan as a whole. The City of Grosse Pointe, Michigan 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 of Grosse Pointe Michigan's major funds for 2017-2018 include the General Fund, Road Improvement Fund, and the Capital Projects Fund.

The General Fund pays for most of the City of Grosse Pointe, Michigan's governmental services. The most significant service is public safety, which has departmental expenditures of \$2,499,705. The General Fund unassigned fund balance at the end of the fiscal year was \$1,521,370. The targeted range is approximately 25 percent of the subsequent year's budgeted expenditures. The City transferred \$700,000 of the excess of unassigned fund balance into the Capital Projects Fund to finance future capital expenses.

The Capital Projects Fund pays for the City of Grosse Pointe Michigan's capital improvement projects. The total capital outlay in the current fiscal year was \$380,982.

# **City of Grosse Pointe, Michigan**

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

### **General Fund Budgetary Highlights**

The majority of the City of Grosse Pointe, Michigan's General Fund departments stayed below budget, resulting in total expenditures of \$542,896 below budget, with revenue above budgeted expectations by \$58,678. This allowed the City to make a transfer to the Capital Projects Fund for the excess unrestricted fund balance in an amount of \$700,000. The combination of these factors resulted in a decrease in General Fund fund balance from \$2,903,999 a year ago to \$2,840,920 at June 30, 2017, offset by the Capital Projects Fund containing \$2,713,721.

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

At June 30, 2017, the City of Grosse Pointe, Michigan had \$61,734,529 invested in a broad range of capital assets, including land, buildings, police and fire equipment, public works equipment, roads, and water and sewer lines. The depreciated value of these assets is \$26,400,666.

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

The City of Grosse Pointe, Michigan's 2017-2018 budget anticipates state revenue sharing to decrease slightly. The City's tax rate remains unchanged and at the Headlee/Proposal A Constitutional cap. However, tax revenue was budgeted to slightly increase due to the results of the housing market in the previous year, capped at an inflation rate of 0.9 percent. Unfunded retiree health care continues to be a financial burden on the City. The adopted budget was balanced reflecting a slight increase in property taxes.

### **Contacting the City of Grosse Pointe, Michigan's Management**

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

# City of Grosse Pointe, Michigan

## Statement of Net Position June 30, 2017

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 4)	\$ 5,700,081	\$ 6,704,097	\$ 12,404,178	\$ 159,770
Receivables - Net	384,240	598,643	982,883	-
Inventory	6,685	-	6,685	-
Prepaid expenses	79,698	11,968	91,666	-
Restricted assets	-	2,173,184	2,173,184	-
Investment in Grosse Pointes - Clinton Refuse Disposal Authority (Note 12)	20,619	-	20,619	-
Net pension asset (Note 9)	5,788,541	212,780	6,001,321	-
Capital assets (Note 6):				
Assets not subject to depreciation	1,848,392	992,421	2,840,813	-
Assets subject to depreciation	8,857,448	14,702,405	23,559,853	-
Advances from other funds (Note 5)	766,614	(766,614)	-	-
<b>Total assets</b>	<b>23,452,318</b>	<b>24,628,884</b>	<b>48,081,202</b>	<b>159,770</b>
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	41,250	41,250	-
Pension (Note 9)	3,475,398	127,752	3,603,150	-
<b>Total deferred outflows of resources</b>	<b>3,475,398</b>	<b>169,002</b>	<b>3,644,400</b>	<b>-</b>
<b>Liabilities</b>				
Accounts payable	406,472	421,406	827,878	3,374
Deposits	75,757	-	75,757	-
Accrued liabilities and other	153,860	76,298	230,158	-
Unearned revenue	-	68,153	68,153	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	253,707	10,480	264,187	-
Current portion of long-term debt (Note 7)	195,000	359,705	554,705	-
Due in more than one year:				
Compensated absences (Note 7)	180,562	3,712	184,274	-
Net OPEB obligation (Note 10)	1,491,015	54,341	1,545,356	-
Long-term debt (Note 7)	700,000	8,640,673	9,340,673	-
<b>Total liabilities</b>	<b>3,456,373</b>	<b>9,634,768</b>	<b>13,091,141</b>	<b>3,374</b>
<b>Deferred Inflows of Resources - Pension (Note 9)</b>	<b>2,311,580</b>	<b>84,973</b>	<b>2,396,553</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	9,810,840	9,361,741	19,172,581	-
Restricted:				
Highways and streets	330,467	-	330,467	-
Budget stabilization	475,000	-	475,000	-
Debt service	54,357	-	54,357	-
Police-restricted use	25,242	-	25,242	-
Construction code activity	13,968	-	13,968	-
Unrestricted	10,449,889	5,716,404	16,166,293	156,396
<b>Total net position</b>	<b>\$ 21,159,763</b>	<b>\$ 15,078,145</b>	<b>\$ 36,237,908</b>	<b>\$ 156,396</b>

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

# City of Grosse Pointe, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,504,645	\$ 549,804	\$ -	\$ -
Public safety	3,403,819	-	53,349	-
Public works	2,374,751	322,599	397,767	26,667
Recreation and culture	829,595	37,006	-	-
Interest on long-term debt	40,202	-	-	-
Total governmental activities	8,153,012	909,409	451,116	26,667
Business-type activities:				
Water and sewer	2,536,726	2,573,917	-	-
Automobile parking system	916,995	1,008,239	-	-
Marina	160,077	181,396	-	-
Total business-type activities	3,613,798	3,763,552	-	-
Total primary government	<u>\$ 11,766,810</u>	<u>\$ 4,672,961</u>	<u>\$ 451,116</u>	<u>\$ 26,667</u>
Component unit - Downtown Development Authority	<u>\$ 48,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes - Net of chargebacks				
State-shared revenue (unrestricted)				
Investment income (unrestricted)				
Cable franchise fees (unrestricted)				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit - Downtown Development Authority
\$ (954,841)	\$ -	\$ (954,841)	\$ -
(3,350,470)	-	(3,350,470)	-
(1,627,718)	-	(1,627,718)	-
(792,589)	-	(792,589)	-
(40,202)	-	(40,202)	-
(6,765,820)	-	(6,765,820)	-
-	37,191	37,191	-
-	91,244	91,244	-
-	21,319	21,319	-
-	149,754	149,754	-
(6,765,820)	149,754	(6,616,066)	-
-	-	-	(48,207)
5,885,742	-	5,885,742	15,000
504,092	-	504,092	-
(27,196)	(16,542)	(43,738)	-
134,689	-	134,689	-
204,604	-	204,604	44,266
23,708	-	23,708	-
6,725,639	(16,542)	6,709,097	59,266
(40,181)	133,212	93,031	11,059
21,199,944	14,944,933	36,144,877	145,337
<b>\$ 21,159,763</b>	<b>\$ 15,078,145</b>	<b>\$ 36,237,908</b>	<b>\$ 156,396</b>

# City of Grosse Pointe, Michigan

## Governmental Funds Balance Sheet June 30, 2017

	General Fund	Road Improvements Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
<b>Assets</b>					
Cash and cash equivalents (Note 4)	\$ 2,962,791	\$ 95,724	\$ 2,024,077	\$ 617,489	\$ 5,700,081
Receivables - Net:					
Property taxes receivable	5,971	-	-	-	5,971
Accrued interest receivable	11,199	-	1,200	-	12,399
Other receivables	131,567	-	-	-	131,567
Due from other governmental units	157,360	-	-	76,943	234,303
Due from other funds (Note 5)	-	-	700,000	-	700,000
Inventory	-	-	-	6,685	6,685
Prepaid expenses	63,968	-	-	15,730	79,698
Advance to other funds (Note 5)	766,614	-	-	-	766,614
<b>Total assets</b>	<b>\$ 4,099,470</b>	<b>\$ 95,724</b>	<b>\$ 2,725,277</b>	<b>\$ 716,847</b>	<b>\$ 7,637,318</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 344,259	\$ 21,058	\$ 11,556	\$ 29,599	\$ 406,472
Due to other funds (Note 5)	700,000	-	-	-	700,000
Deposits	75,757	-	-	-	75,757
Accrued liabilities and other liabilities	132,563	-	-	12,347	144,910
<b>Total liabilities</b>	<b>1,252,579</b>	<b>21,058</b>	<b>11,556</b>	<b>41,946</b>	<b>1,327,139</b>
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue	5,971	-	-	-	5,971
<b>Fund Balances</b>					
Nonspendable:					
Inventory	-	-	-	6,685	6,685
Prepays	63,968	-	-	15,730	79,698
Advances to other funds	766,614	-	-	-	766,614
Restricted:					
Roads	-	74,666	-	251,397	326,063
Police-restricted use	-	-	-	25,242	25,242
Budget stabilization	475,000	-	-	-	475,000
Debt service	-	-	-	54,357	54,357
Construction code activity	13,968	-	-	-	13,968
Assigned:					
Capital projects	-	-	2,713,721	-	2,713,721
Solid waste	-	-	-	321,490	321,490
Unassigned	1,521,370	-	-	-	1,521,370
<b>Total fund balances</b>	<b>2,840,920</b>	<b>74,666</b>	<b>2,713,721</b>	<b>674,901</b>	<b>6,304,208</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,099,470</b>	<b>\$ 95,724</b>	<b>\$ 2,725,277</b>	<b>\$ 716,847</b>	<b>\$ 7,637,318</b>

# City of Grosse Pointe, Michigan

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

<b>Fund Balance Reported in Governmental Funds</b>	\$ 6,304,208
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	10,705,840
Investment in Grosse Pointes - Clinton Refuse Disposal Authority is not being reported in the funds	20,619
Certain revenue in the governmental funds is deferred and will be recognized as revenue in the fund statements in future years	5,971
Net pension assets are not reported in the funds	5,788,541
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(895,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(8,950)
Compensated absences are not due and payable in the current period and are not reported in the funds	(434,269)
Net other postemployment benefits obligation is not due and payable in the current period and is not reported in the funds	(1,491,015)
Deferred outflows from the difference between projected and actual investment earnings, experience, and changes in actuarial assumptions of the pension plans are not reported in the funds	3,475,398
Deferred inflows from the difference between projected and actual experience of the pension plan are not reported in the funds	<u>(2,311,580)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 21,159,763</u></b>

# City of Grosse Pointe, Michigan

## Governmental Funds

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

	General Fund	Road Improvements Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
<b>Revenue</b>					
Property taxes	\$ 4,229,439	\$ 826,006	\$ -	\$ 833,880	\$ 5,889,325
Licenses and permits	152,926	-	-	-	152,926
State sources	504,092	7,754	-	398,976	910,822
Charges for services	171,670	-	-	146,599	318,269
Fines and forfeitures	263,475	-	-	-	263,475
Investment (loss) income	(14,472)	-	(2,691)	141	(17,022)
Other miscellaneous income	495,053	-	72,068	18,444	585,565
Total revenue	5,802,183	833,760	69,377	1,398,040	8,103,360
<b>Expenditures</b>					
Current:					
General government	1,254,293	-	-	-	1,254,293
Judicial	152,008	-	-	-	152,008
Public safety	2,499,705	-	-	2,500	2,502,205
Public works	475,345	-	-	1,169,049	1,644,394
Recreation and culture	583,911	-	-	-	583,911
Capital outlay	-	922,806	380,982	12,064	1,315,852
Debt service:					
Principal	-	-	-	200,000	200,000
Interest and other charges	-	-	-	40,000	40,000
Total expenditures	4,965,262	922,806	380,982	1,423,613	7,692,663
<b>Excess of Revenue Over (Under) Expenditures</b>	836,921	(89,046)	(311,605)	(25,573)	410,697
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	-	-	23,708	-	23,708
Transfers in	-	-	700,000	200,000	900,000
Transfers out	(900,000)	-	-	-	(900,000)
Total other financing (uses) sources	(900,000)	-	723,708	200,000	23,708
<b>Net Change in Fund Balances</b>	(63,079)	(89,046)	412,103	174,427	434,405
<b>Fund Balances - Beginning of year</b>	2,903,999	163,712	2,301,618	500,474	5,869,803
<b>Fund Balances - End of year</b>	<u>\$ 2,840,920</u>	<u>\$ 74,666</u>	<u>\$ 2,713,721</u>	<u>\$ 674,901</u>	<u>\$ 6,304,208</u>

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



# City of Grosse Pointe, Michigan

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

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 434,405
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	1,286,320
Depreciation expense	(1,054,724)
Change in equity interest in joint venture is not reported in the funds	(10,174)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days after year end	(3,583)
Change in accrued interest payable and other	(201)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	200,000
The change in net pension asset and related deferred outflows of resources and deferred inflows of resources does not require the use of current resources and is not reported in the governmental funds	(940,844)
The decrease in other postemployment benefit obligation (OPEB) does not require the use of current resources and is not reported in the governmental funds	39,766
Change in accumulated employee sick and vacation pay is recorded when paid in the governmental funds	8,854
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (40,181)</u></b>

# City of Grosse Pointe, Michigan

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

	Enterprise Funds			
	Water and Sewer	Automobile Parking System	Marina	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 4,489,185	\$ 1,999,118	\$ 215,794	\$ 6,704,097
Receivables - Net:				
Customers	595,619	-	-	595,619
Interest	1,762	1,262	-	3,024
Due from other funds	-	1,211	-	1,211
Prepaid expenses and other assets	5,962	5,709	297	11,968
Total current assets	5,092,528	2,007,300	216,091	7,315,919
Noncurrent assets:				
Restricted assets	2,173,184	-	-	2,173,184
Net pension asset (Note 9)	90,751	97,921	24,108	212,780
Capital assets (Note 6):				
Assets not subject to depreciation	99,083	893,338	-	992,421
Assets subject to depreciation	7,547,808	5,920,589	1,234,008	14,702,405
Total noncurrent assets	9,910,826	6,911,848	1,258,116	18,080,790
Total assets	15,003,354	8,919,148	1,474,207	25,396,709
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	41,250	-	41,250
Deferred outflows related to pensions (Note 9)	52,687	60,592	14,473	127,752
Total deferred outflows	52,687	101,842	14,473	169,002
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	407,383	6,028	7,995	421,406
Due to other funds	1,211	-	-	1,211
Accrued liabilities and other	47,444	28,783	71	76,298
Unearned revenue	-	68,153	-	68,153
Compensated absences (Note 7)	4,672	3,634	2,174	10,480
Current portion of long-term debt (Note 7)	221,145	138,560	-	359,705
Total current liabilities	681,855	245,158	10,240	937,253
Noncurrent liabilities:				
Advances from other funds	-	-	766,614	766,614
Compensated absences (Note 7)	1,665	1,225	822	3,712
Net OPEB obligation (Note 10)	26,615	27,726	-	54,341
Long-term debt (Note 7)	5,968,035	2,672,638	-	8,640,673
Total noncurrent liabilities	5,996,315	2,701,589	767,436	9,465,340
Total liabilities	6,678,170	2,946,747	777,676	10,402,593
<b>Deferred Inflows of Resources - Pension (Note 9)</b>	34,442	40,906	9,625	84,973
<b>Net Position</b>				
Net investment in capital assets	3,630,895	4,496,838	1,234,008	9,361,741
Unrestricted (deficit)	4,712,534	1,536,499	(532,629)	5,716,404
Total net position	<u>\$ 8,343,429</u>	<u>\$ 6,033,337</u>	<u>\$ 701,379</u>	<u>\$ 15,078,145</u>

# City of Grosse Pointe, Michigan

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

	Enterprise Funds			
	Water and Sewer	Automobile Parking System	Marina	Total
<b>Operating Revenue</b>				
Customer billings	\$ 2,551,142	\$ -	\$ -	\$ 2,551,142
Parking lot and meter charges	-	1,008,239	-	1,008,239
Marina rentals and charges for services	-	-	181,396	181,396
Miscellaneous revenue	22,775	-	-	22,775
	<u>2,573,917</u>	<u>1,008,239</u>	<u>181,396</u>	<u>3,763,552</u>
Total operating revenue				
<b>Operating Expenses</b>				
Cost of water	527,205	-	-	527,205
Cost of sewage treatment	972,144	-	-	972,144
Operating and maintenance	441,587	351,604	56,209	849,400
General and administrative	109,768	121,854	552	232,174
Depreciation	325,749	291,743	78,120	695,612
	<u>2,376,453</u>	<u>765,201</u>	<u>134,881</u>	<u>3,276,535</u>
Total operating expenses				
<b>Operating Income</b>	197,464	243,038	46,515	487,017
<b>Nonoperating Expenses</b>				
Investment loss	(12,713)	(3,829)	-	(16,542)
Interest expense	(160,273)	(151,794)	(25,196)	(337,263)
	<u>(172,986)</u>	<u>(155,623)</u>	<u>(25,196)</u>	<u>(353,805)</u>
Total nonoperating expenses				
<b>Change in Net Position</b>	24,478	87,415	21,319	133,212
<b>Net Position - Beginning of year</b>	8,318,951	5,945,922	680,060	14,944,933
<b>Net Position - End of year</b>	<u>\$ 8,343,429</u>	<u>\$ 6,033,337</u>	<u>\$ 701,379</u>	<u>\$ 15,078,145</u>

# City of Grosse Pointe, Michigan

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

	Enterprise Funds			
	Water and Sewer	Automobile Parking System	Marina	Total
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,760,066	\$ 1,006,827	\$ 181,396	\$ 3,948,289
Payments to suppliers	(2,183,993)	(221,360)	(19,520)	(2,424,873)
Payments to employees	(244,811)	(250,708)	(28,604)	(524,123)
Internal activity - Payments from (to) other funds	1,211	(1,211)	-	-
Net cash provided by operating activities	332,473	533,548	133,272	999,293
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from the issuance of bonds	2,607,429	2,686,198	-	5,293,627
Purchase of capital assets	(587,788)	(16,899)	(18,177)	(622,864)
Principal and interest paid on capital debt	(345,636)	(2,881,498)	(25,197)	(3,252,331)
Debt service charge	-	(41,250)	-	(41,250)
Repayments of loans from other funds for capital purposes	-	-	(73,262)	(73,262)
Net cash provided by (used in) capital and related financing activities	1,674,005	(253,449)	(116,636)	1,303,920
<b>Cash Flows from Investing Activities - Proceeds from sale and maturities of investment securities</b>	(12,314)	(3,821)	-	(16,135)
<b>Net Increase in Cash and Cash Equivalents</b>	1,994,164	276,278	16,636	2,287,078
<b>Cash and Cash Equivalents - Beginning of year</b>	4,668,205	1,722,840	199,158	6,590,203
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 6,662,369</u>	<u>\$ 1,999,118</u>	<u>\$ 215,794</u>	<u>\$ 8,877,281</u>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 4,489,185	\$ 1,999,118	\$ 215,794	\$ 6,704,097
Restricted cash	2,173,184	-	-	2,173,184
Total cash and cash equivalents	<u>\$ 6,662,369</u>	<u>\$ 1,999,118</u>	<u>\$ 215,794</u>	<u>\$ 8,877,281</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>				
Operating income	\$ 197,464	\$ 243,038	\$ 46,515	\$ 487,017
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	325,749	291,743	78,120	695,612
Changes in assets and liabilities:				
Receivables	186,149	(1,412)	-	184,737
Prepaid and other assets	(1,728)	(1,262)	63	(2,927)
Accounts payable	(350,166)	34,376	15,293	(300,497)
Due to others	1,211	(1,211)	-	-
Accrued and other liabilities	(26,206)	(31,724)	(6,719)	(64,649)
Net cash provided by operating activities	<u>\$ 332,473</u>	<u>\$ 533,548</u>	<u>\$ 133,272</u>	<u>\$ 999,293</u>

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

# City of Grosse Pointe, Michigan

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## Fiduciary Funds Statement of Fiduciary Net Position - Pension and Other Postemployment Health Benefit Trust Funds June 30, 2017

### Assets

Cash and cash equivalents	\$ 1,321,083
Investments:	
Mutual funds	511,263
Interest in pooled investments	36,873,925
Accrued interest receivable	858
Accounts receivable	207,746
Prepaid expenses and other assets	<u>215,722</u>
Total assets	39,130,597

### Liabilities

Accounts payable	11,573
Accrued liabilities and other	<u>8,383</u>
Total liabilities	<u>19,956</u>

**Net Position Held in Trust for Pension and Other Employee Benefits** **\$ 39,110,641**

# City of Grosse Pointe, Michigan

## Fiduciary Funds

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

#### Additions

Investment income:	
Interest and dividends	\$ 10,950
Net increase in fair value of investments	4,473,567
Investment-related expenses	<u>(155,525)</u>
Net investment income	4,328,992
Contributions:	
Employer	500,777
Employee	<u>197,170</u>
Total contributions	<u>697,947</u>
Total additions	5,026,939

#### Deductions

Benefit payments	2,637,431
Health insurance payments	<u>454,771</u>
Total deductions	<u>3,092,202</u>

**Net Increase in Net Position Held in Trust** 1,934,737

**Net Position Held in Trust for Pension and Other Employee Benefits -**  
Beginning of year 37,175,904

**Net Position Held in Trust for Pension and Other Employee Benefits -**  
End of year \$ 39,110,641

# City of Grosse Pointe, Michigan

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## Notes to Financial Statements June 30, 2017

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

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

#### **Reporting Entity**

The City of Grosse Pointe, Michigan (the "City") is governed by an elected mayor and six-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.

**Blended Component Units** - The City's Building Authority is governed by a board that is appointed 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 its primary purpose is to finance and construct the City's public buildings. There was no activity related to the component unit in the current year.

**Discretely Presented Component Units** - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. There are no differences between the Authority's modified accrual statements and the full accrual statements. The Authority does not issue separate financial statements.

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

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

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

#### **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 enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

#### **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.



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

The various funds are aggregated into three broad fund types:

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

- **The General Fund** - The General Fund is the City's primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- **Road Improvement Fund** - The Road Improvement Fund is a special revenue fund that accounts for the City's large road projects and improvements. The Road Improvement Fund is funded primarily through a property tax millage.
- **Capital Projects Fund**- The Capital Projects Fund accounts for the City's large capital improvements and purchases.

Additionally, the City reports the following "nonmajor" governmental fund types:

- **Special Revenue Funds** - These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.
- **Debt Service Fund** - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

**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 City's activities of the water distribution system and the sewage and storm water collection systems. Funding is provided primarily through user charges.
- **Automobile Parking System Fund** - The Automobile Parking System Fund accounts for the activities of the City's parking lots and structures. Funding is provided primarily through user charges.
- **Marina Fund** - The Marina Fund accounts for the activities of the City's marina. Funding is provided primarily through user charges.

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

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

- **Pension Trust Fund** - The Pension Trust Fund accounts for the activities of the employees' retirement system, which accumulates resources for retirement benefits.
- **Postemployment Health Benefits Trust Fund** - The Postemployment Health Benefits Trust Fund accounts for the postemployment healthcare payments to qualified employees.

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

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

#### **Basis of Accounting**

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

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

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

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

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

All governmental funds and agency funds utilize the modified accrual basis of accounting. The component units record day-to-day activity using the modified accrual basis of accounting but report on the full accrual basis of accounting. The enterprise funds utilize the full accrual basis of accounting.

#### **Specific Balances and Transactions**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Pooled investment income is generally allocated to each fund using a weighted average.

**Investments** - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value as determined by the Pension Trust Fund and Postemployment Health Trust Fund's management.

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

Approximately \$36,870,000, or 94 percent, of the Pension Trust Fund's net position as of June 30, 2017 is included in a pooled market fund. This pooled market fund includes investments that may not be publicly traded and therefore do not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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

**Restricted Assets** - Unspent bond proceeds of the Water Fund are required to be set aside for construction. These amounts have also been classified as restricted assets.

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

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

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

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

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

Capital Asset Class	Lives (in years)
Buildings	25
Vehicles and equipment	5-25
Improvements	5-25
Elworthy parks and recreation	10-40
Other	2-10
Infrastructure	15-20
Water and sewer infrastructure	40-50
Sewer rehabilitation	40-50
Parking lot improvements	13
Parking structure	30
Parking meters	15
Marina	30
Kayak landing and storage	20

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements and proprietary funds report deferred outflows related to the pension system (see Note 9 for details) and for the deferred loss on the bond refunding.

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

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify for reporting in this category. Unavailable revenue qualifies for reporting in this category and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: personal property taxes and special assessments. In addition, the government-wide statements and proprietary funds report deferred inflows differences related to the pension system (see Note 9 for details).

**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 City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the 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 city manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City Council passed a resolution implementing a fund balance policy for the City. The fund balance policy for the General Fund states that the City's basic goal is to limit expenditures to anticipated revenue in order to maintain a balanced budget. It is the goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to a minimum of 25 percent of General Fund expenditures. The use of fund balance is appropriate for one-time expenditures, to avoid creating a structural deficit. If unassigned fund balance falls below the goal or has a deficiency, the City will develop a financial plan to restore the unassigned fund balance to its intended level.

The City Council has adopted by ordinance a Budget Stabilization Fund under Michigan's Public Act 30 of 1978. The City Council may, with a 2/3 vote, set aside General Fund surplus, up to a maximum of 15 percent of the most recent General Fund budget (or average of the five most recent budgets, if less). An appropriation from the Budget Stabilization Fund, which also requires a 2/3 vote of the City Council, may only occur to correct a budget shortfall or in the case of a natural disaster. The balance at June 30, 2017 of the stabilization amount, which is reported in the General Fund, is \$475,000.

**Property Tax Revenue** - Properties are assessed as of December 31. The related property taxes are billed on the following July 1 and October 1. The related property taxes become a lien on December 1 of the following year. The first half of the property taxes is due without penalty by August 10 and the second half of the property taxes is due without penalty by November 10. The final local collection date is February 28.

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

The 2016 taxable valuation of the City totaled \$331 million (a portion of which is captured by the Authority), on which ad valorem taxes levied consisted of 11.8249 mills for the City's operating purposes, 1.7734 mills for rubbish collection, .7404 mills for City debt, and 2.4970 mills for road improvements. The ad valorem taxes levied, net of related captures, raised \$3.9 million for operations, \$588,000 for rubbish collection (taxes are reflected in the Solid Waste Fund), \$246,000 for City debt, and \$826,000 for road improvements.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare benefits to retirees.

For pensions, the City records a net pension asset 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 asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Grosse Pointe Employees' Retirement System 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.

For other postemployment benefit costs, 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.

**Unearned Revenue** - Unearned revenue in the government-wide statements and proprietary funds relates to revenue that is unearned. As of June 30, 2017, the government-wide statements and the Parking Fund have unearned revenue of \$68,153 resulting from advance receipts for use of parking spaces.

**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, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours, up to a certain limit depending on the employee's job category. Unused vacation leave hours are recorded at 100 percent of unused vacation hours. The related liabilities and expenses for sick and vacation time are recorded in the government-wide and proprietary fund financial statements.



# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

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

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer, Automobile Parking System, and Marina Funds include charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

### Note 2 - Change in Accounting

During the year, the City adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result, the notes to the financial statements and required supplemental information now include enhanced disclosures about the measurement of the OPEB liabilities for which assets have been accumulated.

### Note 3 - Stewardship, Compliance, and Accountability

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

Surplus at July 1, 2016		\$	15,037
Current year permit revenue			136,038
Direct costs	\$	103,171	
Estimated indirect costs		33,936	137,107
			<hr/>
Current year shortfall			(1,069)
			<hr/>
Cumulative surplus at June 30, 2017		\$	13,968

### **Note 3 - Stewardship, Compliance, and Accountability (Continued)**

**Budgetary Information** - The annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carryforward. The legal level of budgetary control is the functional level for the General Fund and the fund level for special revenue funds.

The budget statement (budgetary combined schedule for the General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The City Council requires the City's director of finance to submit an estimate of revenue and anticipated expenditures for the succeeding fiscal year in May. The City's director of finance is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenue that is specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase in net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds, or notes, the total of which is not significant in relation to the original budget appropriation valuation.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the General Fund - transfers out budget category had an expenditure overrun of \$664,653. The overrun was due to the City's decision to contribute additional monies to the Capital Projects Fund, which was not originally budgeted for.

### **Note 4 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; bankers' acceptances of United States banks; commercial paper, which matures not more than 270 days after the date of purchase; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967; investment pools organized under the Surplus Investment Act of 1982; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

### Note 4 - Deposits and Investments (Continued)

The Employees' Retirement System and the Other Postemployment Health Benefit Plan are also authorized by Michigan's Public Act 347 of 2012 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, 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 bonds and securities of the United States government and bank accounts and CDs of federally insured financial institutions, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds, but not the remainder of state statutory authority as listed above. The City of Grosse Pointe, Michigan's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk. At year end, the City's primary government had \$12,513,854 and the Downtown Development Authority had \$159,770 of bank deposits (certificates of deposit and checking and savings accounts). Of that amount, approximately \$3,344,906 was covered by federal depository insurance. The Downtown Development Authority's bank deposits are maintained in pooled accounts of the City; therefore, their amount of insurance would be allocated to the Downtown Development Authority's deposits based on their prorated share of the pool.

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 city funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Deposits and Investments (Continued)

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

At year end, the City had the following investments and maturities:

Primary Government	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Negotiable certificates of deposit	\$ 3,146,584	\$ 997,599	\$ 2,002,628	\$ 146,357	\$ -
U.S. government bonds	1,978,417	-	199,072	1,779,345	-
Total	<u>\$ 5,125,001</u>	<u>\$ 997,599</u>	<u>\$ 2,201,700</u>	<u>\$ 1,925,702</u>	<u>\$ -</u>
Fiduciary Funds	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Mutual fund	\$ 511,953	\$ 511,953	\$ -	\$ -	\$ -
Interest in pooled investments *	36,873,925	-	-	-	-
Total	<u>\$ 37,385,878</u>	<u>\$ 511,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\* The maturities of the interest in pooled investments cannot be determined at year end.

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

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
Negotiable certificates of deposit	\$ 3,146,584	N/A	N/A
U.S. government bonds	1,978,417	AA+	S&P
Total	<u>\$ 5,125,001</u>		
<b>Fiduciary Funds</b>			
Mutual fund	\$ 511,953	N/A	N/A
Interest in pooled investments *	36,873,925	N/A	N/A
Total	<u>\$ 37,385,878</u>		

\* The ratings in the interest in pooled investments cannot be determined at year end.

### Note 4 - Deposits and Investments (Continued)

**Concentration of Credit Risk** - The City places no limit on the amount the City may invest in any one issuer. In the fiduciary funds, 97 percent of the Pension Trust Fund's net position is invested in the MERS Total Market Fund and 61 and 11 percent of the Postemployment Health Benefits Trust Fund's net position is invested in the Baird Ultra Short Bond and Vanguard Total Stock Market ETF, respectively.

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

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

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

- Mutual funds and exchange traded funds of \$511,263 are valued using quoted market prices (Level 1 inputs).
- U.S. government bonds of \$1,978,417 are valued using a matrix pricing model (Level 2 inputs).
- Negotiable certificates of deposit of \$3,146,584 are valued using a matrix pricing model (Level 2 inputs).
- Interest in pooled investments of \$36,873,925 is measured at net asset value (NAV).

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

The City holds shares or interests in an investment pool whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Deposits and Investments (Continued)

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
MERS ISP Total Market Portfolio	\$ 36,873,925	\$ -	N/A	N/A

The MERS ISP Total Market Portfolio is a fully diversified portfolio combining traditional stocks and bonds with alternative asset classes including real estate, private equity, and commodities. The objective is to provide current income and capital appreciation while minimizing the volatility of the capital markets. MERS manages the asset allocation and monitors the underlying investment managers of the MERS ISP Total Market Portfolio.

### Note 5 - Interfund Payables and Transfers

The composition of interfund receivables at June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
Capital Projects Fund	General Fund	\$ 700,000
Water and Sewer Fund	Automobile Parking System Fund	1,211

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.

In 2003, the General Fund advanced approximately \$1.5 million to the Marina Fund. The advance is being repaid to the General Fund over 20 years at a 3 percent interest rate. At June 30, 2017, the balance was \$766,614.

Fund Transferred From	Fund Transferred To	Amount
General Fund	Capital Projects Fund (1)	\$ 700,000
	Nonmajor governmental funds (2)	200,000
	Total General Fund	<u>\$ 900,000</u>

(1) Transfer of unrestricted funds for future capital acquisitions

(2) Transfer allowed under State Law Act 51 for construction and maintenance

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 6 - Capital Assets

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

	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,628,841	\$ -	\$ -	\$ -	\$ 1,628,841
Construction in progress	511,515	(464,117)	172,153	-	219,551
Subtotal	2,140,356	(464,117)	172,153	-	1,848,392
Capital assets being depreciated:					
Infrastructure	20,080,623	464,117	863,476	-	21,408,216
Buildings and improvements	4,783,725	-	5,000	-	4,788,725
Vehicles and equipment	3,974,172	-	217,596	(150,043)	4,041,725
Improvements	4,912,347	-	-	-	4,912,347
Elworthy parks and recreation	596,921	-	28,095	-	625,016
Subtotal	34,347,788	464,117	1,114,167	(150,043)	35,776,029
Accumulated depreciation:					
Infrastructure	16,177,514	-	413,191	-	16,590,705
Buildings and improvements	2,850,592	-	280,917	-	3,131,509
Vehicles and equipment	3,082,371	-	219,896	(150,043)	3,152,224
Improvements	3,329,492	-	118,490	-	3,447,982
Elworthy parks and recreation	573,931	-	22,230	-	596,161
Subtotal	26,013,900	-	1,054,724	(150,043)	26,918,581
Net capital assets being depreciated	8,333,888	464,117	59,443	-	8,857,448
Net capital assets	\$ 10,474,244	\$ -	\$ 231,596	\$ -	\$ 10,705,840
<b>Business-type Activities</b>					
<b>Water and Sewer</b>					
Water and sewer capital assets:					
Capital assets not being depreciated -					
Construction in progress	\$ 25,414	\$ (25,414)	\$ 99,083	\$ -	\$ 99,083
Capital assets being depreciated:					
Water infrastructure	6,778,581	25,414	363,021	-	7,167,016
Sewer rehabilitation	4,271,076	-	63,907	-	4,334,983
Vehicles and equipment	815,350	-	61,777	-	877,127
Subtotal	11,865,007	25,414	488,705	-	12,379,126
Accumulated depreciation:					
Water and infrastructure	3,159,672	-	174,341	-	3,334,013
Sewer rehabilitation	706,537	-	102,413	-	808,950
Vehicles and equipment	639,360	-	48,995	-	688,355
Subtotal	4,505,569	-	325,749	-	4,831,318
Net capital assets being depreciated	7,359,438	25,414	162,956	-	7,547,808
Net water and sewer capital assets	\$ 7,384,852	\$ -	\$ 262,039	\$ -	\$ 7,646,891

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 6 - Capital Assets (Continued)

	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
<b>Automobile Parking System</b>					
Automobile parking system capital assets:					
Capital assets not being depreciated -					
Land and land improvements	\$ 893,338	\$ -	\$ -	\$ -	\$ 893,338
Capital assets being depreciated:					
Vehicles and equipment	238,658	-	16,899	-	255,557
Parking lot and improvements	8,003,556	-	-	-	8,003,556
Parking meters	210,196	-	-	-	210,196
Subtotal	8,452,410	-	16,899	-	8,469,309
Accumulated depreciation:					
Vehicles and equipment	178,341	-	22,332	-	200,673
Parking lot and improvements	1,873,983	-	264,860	-	2,138,843
Parking meters	204,653	-	4,551	-	209,204
Subtotal	2,256,977	-	291,743	-	2,548,720
Net capital assets being depreciated	6,195,433	-	(274,844)	-	5,920,589
Net automobile parking system capital assets	\$ 7,088,771	\$ -	\$ (274,844)	\$ -	\$ 6,813,927
<b>Marina</b>					
Marina capital assets:					
Capital assets being depreciated:					
Marina	\$ 2,175,034	\$ -	\$ 10,372	\$ -	\$ 2,185,406
Kayak landing and storage	76,040	-	7,806	-	83,846
Subtotal	2,251,074	-	18,178	-	2,269,252
Accumulated depreciation:					
Marina	905,797	-	73,538	-	979,335
Kayak landing and storage	51,327	-	4,582	-	55,909
Subtotal	957,124	-	78,120	-	1,035,244
Net marina capital assets	\$ 1,293,950	\$ -	\$ (59,942)	\$ -	\$ 1,234,008
Net business-type activity capital assets	\$ 15,767,573	\$ -	\$ (72,747)	\$ -	\$ 15,694,826

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

#### Governmental activities:

General government	\$ 626,001
Public safety	99,735
Public works	111,029
Recreation and culture	217,959
Total governmental activities	\$ 1,054,724

#### Business-type activities:

Water and sewer	\$ 325,749
Automobile parking system	291,743
Marina	78,120
Total business-type activities	\$ 695,612



# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 6 - Capital Assets (Continued)

**Construction Commitments** - The City has three active construction projects at year end related to the water main maintenance and road projects. The total construction cost of the water main maintenance project is estimated at approximately \$2,000,000. As of year end, the City has incurred \$99,083 in costs related to this project. The City also has one road project ongoing. This project has an estimated total construction cost of \$823,000, with \$59,496 incurred.

### 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. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
2010 Unlimited Tax General Obligation Bonds - Amount of issue - \$1,940,000 Maturing through 2020	4.00%	\$ 1,095,000	\$ -	\$ 200,000	\$ 895,000	\$ 195,000
Compensated absences		443,123	242,246	251,100	434,269	253,707
Total governmental activities		<u>\$ 1,538,123</u>	<u>\$ 242,246</u>	<u>\$ 451,100</u>	<u>\$ 1,329,269</u>	<u>\$ 448,707</u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

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

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
2007 Limited Tax Obligation Capital Improvement Bonds - Amount of issue - \$3,600,000 Maturing through 2031	3.85-4.10%	\$ 2,850,000	\$ -	\$ 2,725,000	\$ 125,000	\$ 125,000
2009 State Revolving Fund Loan - Amount of issue - \$498,000 Maturing through 2030	2.50%	380,000	-	25,000	355,000	25,000
2012 Limited Tax Obligation Capital Improvement Bonds - Amount of issue - \$1,220,000 Maturing through 2032	1.35-3.20%	1,140,000	-	30,000	1,110,000	35,000
2013 State Revolving Fund Loan - Amount of issue - \$2,411,751 Maturing through 2030	2.00%	2,266,751	399,518	150,000	2,516,269	150,000
2017 Capital Improvements Bonds - Amount of issue - \$1,985,000 Maturing through 2039	4.00%	-	1,985,000	-	1,985,000	-
2017 Parking Refunding Bonds - Amount of issue - \$2,415,000 Maturing through 2032 Plus premiums on bonds payable	4.00%	-	2,415,000	-	2,415,000	-
		-	494,109	-	494,109	24,705
Total long-term debt		6,636,751	5,293,627	2,930,000	9,000,378	359,705
Compensated absences		11,172	10,576	7,556	14,192	10,480
Total business-type activities		<u>\$ 6,647,923</u>	<u>\$ 5,304,203</u>	<u>\$ 2,937,556</u>	<u>\$ 9,014,570</u>	<u>\$ 370,185</u>

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 195,000	\$ 31,900	\$ 226,900	\$ 335,000	\$ 199,622	\$ 534,622
2019	220,000	23,600	243,600	335,000	212,939	547,939
2020	240,000	14,400	254,400	345,000	257,635	602,635
2021	240,000	4,800	244,800	375,000	248,540	623,540
2022	-	-	-	455,000	238,665	693,665
2023-2027	-	-	-	2,605,000	985,852	3,590,852
2028-2032	-	-	-	3,011,269	550,082	3,561,351
2033-2039	-	-	-	1,045,000	189,963	1,234,963
Total	<u>\$ 895,000</u>	<u>\$ 74,700</u>	<u>\$ 969,700</u>	<u>\$ 8,506,269</u>	<u>\$ 2,883,298</u>	<u>\$ 11,389,567</u>

Note: the above table excludes the future debt service requirements for the premiums on bonds payable.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

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

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund, Local Streets Fund, and Major Streets Fund. The net pension obligation and the net OPEB obligation will be liquidated from the funds from which the individual employee's salaries are paid, generally the General Fund, Local Streets Fund, Major Streets Fund, Water and Sewer Fund, and Automobile Parking System Fund.

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City is self funding medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe Farms, Grosse Pointe Park, and Grosse Pointe Woods, and the Village of Grosse Pointe Shores. Grosse Pointe Woods serves as the administrative agent for the program; however, each municipality is responsible for its individual claims.

The City estimates the potential liability for medical benefit 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. The City's calculation is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Changes in the estimated liability for the past two fiscal years are included in the table below.

The City has purchased commercial insurance for all types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

	Medical Claims	
	2017	2016
Unpaid claims - Beginning of year	\$ -	\$ -
Incurred claims, including claims incurred but not reported	606,492	627,833
Claim payments	(606,492)	(627,833)
Unpaid claims - End of year	\$ -	\$ -

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Pension Plan

**Plan Administration** - The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe, Michigan; this plan covers all full-time employees of the City. The system provides retirement and postemployment benefits as well as disability and death benefits to plan members and their beneficiaries.

Management of the plan is vested in the pension board, which consists of the following five individuals:

- A resident of the City who is not an officer of the City and who is not a participant or beneficiary of a participant, to be appointed by the mayor with the consent of the City Council
- Two members of the City Council to be appointed by and serve at the pleasure of the City Council
- A certified public safety officer having at least five years of credited service who is a participant of the retirement system and has been elected by the certified public safety officer participants in the retirement system
- A general participant having at least five years of credited service and who is not a certified public safety officer and has been elected by the participants who are not certified public safety officers

**Employees Covered by Benefit Terms** - At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	55
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>30</u>
Total employees covered by the plan	<u><u>88</u></u>

**Benefits Provided** - The pension plan provides retirement, disability, and death benefits. Benefit terms are established by city ordinances and negotiations with the City's collective bargaining units and may be amended through negotiations with the City's collective bargaining units.

### Note 9 - Pension Plan (Continued)

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2017, the active member contribution rate was 5.0 percent of annual pay for general members and 6.50 percent for public safety members. The City's contribution rate was 0 percent of annual payroll for general and public safety members.

#### **Pension Plan Investments - Policy and Rate of Return**

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

Asset Class	Target Allocation
Global equity	57.50 %
Global fixed income	20.00
Real assets	12.50
Diversifying strategies	10.00

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.

**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 12.74 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Pension Plan (Continued)

#### Pension Plan Reserves

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 5.0 percent. For any employee who terminates before vesting in the pension plan, the employee's balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

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

	Required Reserve	Amount Funded
Retiree reserve	\$ 36,233,665	\$ 36,233,665
Employee reserve	2,103,964	2,103,964

#### Net Pension Asset

The components of the net pension asset of the City at June 30, 2017 were as follows:

Total pension liability	\$ (32,336,308)
Plan fiduciary net position	<u>38,337,629</u>
City's net pension asset	<u>\$ 6,001,321</u>

Plan fiduciary net position as a percentage of the total pension liability 118.6 %

The City has chosen to use June 30, 2017 as its measurement date for the net pension asset. The June 30, 2017 reported net pension asset 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 that date.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Pension Plan (Continued)

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

Changes in Net Pension Asset	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Asset
<b>Balance at June 30, 2016</b>	\$ 34,166,544	\$ 36,516,273	\$ (2,349,729)
Service cost	510,484	-	510,484
Interest	2,300,663	-	2,300,663
Differences between expected and actual experience	815,282	-	815,282
Changes in assumptions	(2,819,234)	-	(2,819,234)
Contributions - Employee	-	144,133	(144,133)
Net investment income	-	4,330,714	(4,330,714)
Benefit payments, including refunds	(2,637,431)	(2,637,431)	-
Administrative expenses	-	(16,060)	16,060
Net changes	(1,830,236)	1,821,356	(3,651,592)
<b>Balance at June 30, 2017</b>	<u>\$ 32,336,308</u>	<u>\$ 38,337,629</u>	<u>\$ (6,001,321)</u>

**Assumption Changes** - Since the last measurement date, the City's discount rate used to calculate the total pension liability changed from 6.95 percent to 7.50 percent.

The mortality table was changed from the RP 2000 Combined Healthy Mortality Table to the RP 2000 Combined Healthy Mortality Table Projected to 2014.

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

For the year ended June 30, 2017, the City recognized pension expense of \$1,093,022. 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	\$ 932,232	\$ (218,054)
Changes in assumptions	1,830,865	(2,178,499)
Net difference between projected and actual earnings on pension plan investments	840,053	-
Total	<u>\$ 3,603,150</u>	<u>\$ (2,396,553)</u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Pension Plan (Continued)

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

Years Ending June 30	Amount
2018	\$ 860,628
2019	860,628
2020	43,525
2021	(558,184)

**Actuarial Assumptions** - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.5 %
Salary increases	4.5 % 8.5 percent, including inflation
Investment rate of return	7.5 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP 2000 Combined Healthy Annuitant Mortality Table Projected to 2014.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 3.13 percent. The source of that bond rate was the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2017. The long-term expected rate of return was applied to projected benefit payments from 2018 through 2066 and the municipal bond rate was applied to the remaining periods.



# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 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 equity	5.18 %
Global fixed income	1.11
Real assets	3.75
Diversifying strategies	3.00

**Sensitivity of the Net Pension Asset to Changes in the Discount Rate** - The following presents the net pension asset of the City, calculated using the discount rate of 7.50 percent, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net pension asset of the City	\$ (2,207,846)	\$ (6,001,321)	\$ (9,197,091)

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 10 - Other Postemployment Benefits

**Plan Description** - This is a single-employer defined benefit plan administered by the City. The City provides healthcare to all full-time employees upon retirement, in accordance with labor contracts and with the City of Grosse Pointe Postemployment Health Care Benefits Plan (the "Plan"). The Plan was established by ordinance and created by a 420 transfer from excess reserves in the City of Grosse Pointe Employees' Retirement System Fund on June 30, 2006. At June 30, 2015, the date of the most recent actuarial valuation, membership consisted of 27 active employees, 35 retirees who are eligible and receiving benefits, and three participants who are eligible but not yet receiving benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with some retired employee groups contributing a portion of the cost. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The Plan has been closed to nonunion and public works employees hired on or after July 1, 2007 and public safety officers hired on or after July 1, 2009. The Plan does not issue a separate financial report. Administrative costs are paid by the Plan.

**Funding Policy** - Employees covered by the Plan are not required to make any contributions to the Plan. 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. Expenditures for postemployment healthcare benefits were paid by the Postemployment Health Benefits Trust as the insurance premiums became due; during the year, this amounted to \$454,771. In the current fiscal year, employer contributions of \$777 for premium payments were made to the healthcare plan along with \$500,000 advance funding.

**Funding Progress** - For the year ended June 30, 2017, the City was required to contribute \$253,312 toward the Postemployment Benefit Fund.

Annual required contribution (recommended)	\$ 253,312
Interest on the prior year's net OPEB obligation	129,826
Less adjustment to the annual required contribution	<u>(68,026)</u>
Annual OPEB cost	315,112
Amounts contributed:	
Payments of current premiums	(777)
Advance funding	(500,000)
Total amounts contributed	<u>(500,777)</u>
Decrease in net OPEB obligation	(185,665)
OPEB obligation - Beginning of year	<u>1,731,021</u>
OPEB obligation - End of year	<u>\$ 1,545,356</u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 10 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
6/30/15	6/30/12	\$ 351,302	\$ 407,861	56.4 %	66.8 %	\$ 1,663,797
6/30/16	6/30/15	405,961	468,125	98.5	48.6	1,731,021
6/30/17	6/30/15	253,312	315,112	197.7	158.9	1,545,356

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

The funding progress of the Plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/09	\$ 1,243,272	\$ 9,319,881	\$ 8,076,609	13.3 %	\$ 3,594,966	224.7 %
6/30/12	876,578	7,913,518	7,036,940	11.1	2,971,940	236.8
6/30/15	538,595	7,209,838	6,671,243	7.5	2,158,693	309.0

**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.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 10 - Other Postemployment Benefits (Continued)

In the June 30, 2015 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by 0.5 percent decrements to an ultimate rate of 4.5 percent after eight years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value as of June 30, 2015. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015 was 30 years.

### Note 11 - OPEB Plan

**Plan Administration** - The City administers the City of Grosse Pointe Postemployment Health Care Benefits Plan (the "Plan"), a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for all full-time general and public safety employees of the City.

**Employees Covered by Benefit Terms** - At June 30, 2017, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	46
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	14
	<hr/>
Total	63

**Benefits Provided** - The Plan provides retiree healthcare benefits to eligible employees and their spouses. To be eligible, employees at the time of retirement must have obtained 10 or more years of service. Retirees and eligible spouses who are eligible for Medicare Part A and/or Part B must elect and pay for that coverage.

**Contributions** - The board retains an independent actuary to determine the annual contribution. For the year ended June 30, 2017, the actuarially determined contribution was \$875,412 and the City contributed \$0.

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

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - OPEB Plan (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	16.00 %	4.50 %
U.S. government or agency fixed income	84.00	0.35

**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 3.95 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:

Total OPEB liability	\$ 12,471,890
Plan fiduciary net position	<u>773,012</u>
Net OPEB liability	<u>\$ 13,244,902</u>
Plan fiduciary net position as a percentage of the total OPEB liability	6 %

#### Actuarial Assumptions

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

Inflation	-	%	
Healthcare cost trend rate	6.00	%	For the year of valuation, graded down to 5 percent in 0.1 percent increments
Salary increases	-	%	Zero increases assumed
Investment rate of return	5.00	%	Net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP 2000 Healthy Annuitant Mortality Table Projected to 2014.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - OPEB Plan (Continued)

**Discount Rate** - The discount rate used to measure the total OPEB liability was 5.00 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.

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 3.13 percent. The source of that bond rate was the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2017.

**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 5.00 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.00 percent) or 1 percentage point higher (6.00 percent) than the current rate:

	1 Percent Decrease (4.00%)	Current Discount Rate (5.00%)	1 Percent Increase (6.00%)
Net OPEB liability	\$ 13,719,211	\$ 11,698,878	\$ 10,077,141

**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 6.00 percent in the first year, decreasing in 0.1 percent increments over the following 10 years to an assumed rate of 5.00 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 (5.00 percent, decreasing to 4.00 percent) or 1 percentage point higher (7.00 percent, decreasing to 6.00 percent) than the current rate:

	1 Percent Decrease (5.00% decreasing to 4.00%)	Current Healthcare Cost Trend Rate (6.00% decreasing to 5.00%)	1 Percent Increase (7.00% decreasing to 6.00%)
Net OPEB liability	\$ 10,047,714	\$ 11,698,878	\$ 13,756,641

### **Note 12 - Joint Venture**

The City is a member of the Grosse Pointes - Clinton Refuse Disposal Authority joint venture (the "Authority"), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. The City Council appoints one member to the Authority's governing board, which then approves its budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The City's interest in the net position of the Authority totaled approximately \$20,600 at June 30, 2017 and is reported as part of the governmental activities in the statement of net position. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

### **Note 13 - Deferred Compensation Plan**

Full-time employees of the City may participate in the ICMA-RC Deferred Compensation Plan, as administered through ICMA, if they so desire. Employees may contribute a portion of their wages, on a tax-deferred basis, to the plan. The City will contribute on a matching basis between 3 percent and 8 percent depending on job classification. In fiscal year 2017, the City's contribution toward the deferred compensation plan was approximately \$82,700.

### **Note 14 - Subsequent Events**

In September 2017, the City Council approved an agreement allowing the City to purchase three parcels of land for a total of \$1.65 million.

### **Note 15 - Upcoming Accounting Pronouncements**

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability. 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 15 - Upcoming Accounting Pronouncements (Continued)**

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

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



## **Required Supplemental Information**

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# City of Grosse Pointe, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 4,200,233	\$ 4,200,233	\$ 4,229,439	\$ 29,206
Licenses and permits	107,800	107,800	152,926	45,126
State-shared revenue and grants	488,743	488,743	504,092	15,349
Charges for services	174,320	174,320	171,670	(2,650)
Fines and forfeitures	167,200	167,200	263,475	96,275
Investment income (loss)	93,878	93,878	(14,472)	(108,350)
Other revenue	511,331	511,331	495,053	(16,278)
Total revenue	5,743,505	5,743,505	5,802,183	58,678
<b>Expenditures</b>				
General government	1,387,734	1,296,734	1,254,293	42,441
District court	162,496	162,496	152,008	10,488
Public safety	2,773,298	2,864,298	2,499,705	364,593
Public works	519,617	519,617	475,345	44,272
Recreation and culture	665,013	665,013	583,911	81,102
Total expenditures	5,508,158	5,508,158	4,965,262	542,896
<b>Excess of Revenue Over Expenditures</b>	235,347	235,347	836,921	601,574
<b>Other Financing Uses - Interfund transfers out</b>	(235,347)	(235,347)	(900,000)	(664,653)
<b>Net Change in Fund Balance</b>	-	-	(63,079)	(63,079)
<b>Fund Balance - Beginning of year</b>	2,428,999	2,428,999	2,428,999	-
<b>Fund Balance - End of year</b>	<u>\$ 2,428,999</u>	<u>\$ 2,428,999</u>	<u>\$ 2,365,920</u>	<u>\$ (63,079)</u>

# City of Grosse Pointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Road Improvements Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 827,967	\$ 827,967	\$ 826,006	\$ (1,961)
State sources	-	-	7,754	7,754
Total revenue	827,967	827,967	833,760	5,793
<b>Expenditures - Current - Capital outlay</b>	953,064	953,064	922,806	30,258
<b>Net Change in Fund Balance</b>	(125,097)	(125,097)	(89,046)	36,051
<b>Fund Balance - Beginning of year</b>	163,712	163,712	163,712	-
<b>Fund Balance - End of year</b>	<u>\$ 38,615</u>	<u>\$ 38,615</u>	<u>\$ 74,666</u>	<u>\$ 36,051</u>

# City of Grosse Pointe, Michigan

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

A reconciliation of the General Fund budgetary comparison schedule to the fund-based statement of revenue, expenditures, and changes in fund balances is as follows:

	<u>Fund Balance</u>
Amount per operating statement	\$ 2,840,920
Less fund balance related to the Budget Stabilization Fund which is rolled into the General Fund	<u>(475,000)</u>
Amount per budget statement	<u>\$ 2,365,920</u>

# City of Grosse Pointe, Michigan

## Required Supplemental Information Pension System Schedule - Schedule of Changes in the City's Net Pension Asset and Related Ratios Last Ten Fiscal Years

	2017	2016	2015	2014	2013*	2012*	2011*	2010*	2009*	2008*
<b>Total Pension Liability</b>										
Service cost	\$ 510,484	\$ 583,448	\$ 531,373	\$ 558,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	2,300,663	2,262,320	2,119,599	2,068,165	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	815,282	534,735	(545,135)	(278,497)	-	-	-	-	-	-
Changes in assumptions	(2,819,234)	2,029,089	1,709,971	-	-	-	-	-	-	-
Benefit payments, including refunds	(2,637,431)	(2,231,192)	(1,646,583)	(1,651,284)	-	-	-	-	-	-
<b>Net Change in Total Pension Liability</b>	(1,830,236)	3,178,400	2,169,225	697,109	-	-	-	-	-	-
<b>Total Pension Liability - Beginning of year</b>	34,166,544	30,988,144	28,818,919	28,121,810	-	-	-	-	-	-
<b>Total Pension Liability - End of year</b>	<b>\$ 32,336,308</b>	<b>\$ 34,166,544</b>	<b>\$ 30,988,144</b>	<b>\$ 28,818,919</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ -	\$ -	\$ 41,110	\$ 289,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Member	144,133	156,576	167,259	155,399	-	-	-	-	-	-
Net investment income	4,330,714	106,456	1,057,577	4,589,176	-	-	-	-	-	-
Administrative expenses	(16,060)	(15,678)	(13,569)	(12,099)	-	-	-	-	-	-
Benefit payments, including refunds	(2,637,431)	(2,231,192)	(1,646,583)	(1,651,284)	-	-	-	-	-	-
Other	-	(11,800)	(1,000)	-	-	-	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	1,821,356	(1,995,638)	(395,206)	3,370,312	-	-	-	-	-	-
<b>Plan Fiduciary Net Position - Beginning of year</b>	36,516,273	38,511,911	38,907,117	35,536,805	-	-	-	-	-	-
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 38,337,629</b>	<b>\$ 36,516,273</b>	<b>\$ 38,511,911</b>	<b>\$ 38,907,117</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>City's Net Pension Asset</b>	<b>\$ (6,001,321)</b>	<b>\$ (2,349,729)</b>	<b>\$ (7,523,767)</b>	<b>\$ (10,088,198)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	118.56 %	106.88 %	124.28 %	135.01 %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 2,278,714	\$ 2,369,691	\$ 2,872,040	\$ 2,739,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Asset as a Percentage of Covered Employee Payroll</b>	(263.4)%	(99.2)%	(262.0)%	(368.3)%	- %	- %	- %	- %	- %	- %

\* GASB Statement No. 67 was implemented for the fiscal year ended 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 Grosse Pointe, Michigan

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## Required Supplemental Information Pension System Schedule Schedule of Investment Returns Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.74 %	0.85 %	3.04 %	13.99 %

GASB Statement No. 67 was implemented for the fiscal year ended 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 Grosse Pointe, Michigan

## Required Supplemental Information Postemployment Health Benefits Schedules Schedule of Funding Progress Year Ended June 30, 2017

The schedule of funding progress for the City's postemployment benefit system 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
6/30/09	\$ 1,243,272	\$ 9,319,881	\$ 8,076,609	13.3 %	\$ 3,594,996	224.7 %
6/30/12	876,578	7,913,518	7,036,940	11.1	2,971,940	236.8
6/30/15	538,595	7,209,838	6,671,243	7.5	2,158,693	309.0

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

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Medical inflation rate *	8.0%
Cost-of-living adjustments	4.5%

\* Includes inflation at 8 percent, decreasing at 0.5 percent decrements over the following eight years to the ultimate assumed rate of 4.5 percent.



# City of Grosse Pointe, Michigan

## Required Supplemental Information Postemployment Health Benefits Schedules Schedule of Changes in the Net OPEB Liability and Related Ratios Last Ten Fiscal Years

(Schedule is built prospectively upon implementation of GASB Statement No. 74)

	2017
<b>Total OPEB Liability</b>	
Service cost	\$ 238,620
Interest	523,108
Differences between expected and actual experience	1,367,309
<b>Net Change in Total OPEB Liability</b>	2,129,037
<b>Total OPEB Liability - Beginning of year</b>	10,342,853
<b>Total OPEB Liability - End of year</b>	<b>\$ 12,471,890</b>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 500,777
Contributions - Active and inactive plan members not yet receiving benefits	53,037
Net investment income	19,839
Administrative expenses	(5,500)
Benefit payments, including refunds	(454,771)
<b>Net Change in Plan Fiduciary Net Position</b>	113,382
<b>Plan Fiduciary Net Position - Beginning of year</b>	659,630
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 773,012</b>
<b>Net OPEB Liability - Ending</b>	<b>\$ 11,698,878</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	6.20 %
<b>Covered Employee Payroll</b>	\$ 1,205,019
<b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	970.8 %

The amounts presented for each fiscal year were determined as of June 30, 2017. GASB Statement No. 74 was implemented in fiscal year 2017. The schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# City of Grosse Pointe, Michigan

## Required Supplemental Information Postemployment Health Benefits Schedules Schedule of City Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009*	2008*
Actuarially determined contribution	\$ 253,312	\$ 405,961	\$ 351,302	\$ 343,147	\$ 473,082	\$ 526,121	\$ 526,483	\$ 599,141	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	500,777	400,901	198,168	264,942	216,341	554,768	57,421	485,955	-	-
<b>Contribution (Excess) Deficiency</b>	<b>\$ (247,465)</b>	<b>\$ 5,060</b>	<b>\$ 153,134</b>	<b>\$ 78,205</b>	<b>\$ 256,741</b>	<b>\$ (28,647)</b>	<b>\$ 469,062</b>	<b>\$ 113,186</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 2,158,693</b>	<b>\$ 2,158,693</b>	<b>\$ 2,158,693</b>	<b>\$ 2,971,940</b>	<b>\$ 2,971,940</b>	<b>\$ 2,971,940</b>	<b>\$ 3,594,966</b>	<b>\$ 3,594,966</b>	<b>\$ 3,594,966</b>	<b>\$ 3,063,467</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>23.2 %</b>	<b>18.6 %</b>	<b>9.2 %</b>	<b>8.9 %</b>	<b>7.3 %</b>	<b>18.7 %</b>	<b>1.6 %</b>	<b>13.5 %</b>	<b>- %</b>	<b>- %</b>

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2017 - Covered employee payroll is as of June 30 of the current fiscal year
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	Market
Inflation	N/A
Healthcare cost trend rates	6 percent for the year of valuation, graded down to 5 percent in 0.1 percent increments
Salary increases	N/A
Investment rate of return	5.0 percent, net of plan investment expense
Retirement age	General members - Age 55 with 25 or more years of service or age 60 with 10 or more years of service; command officers and public safety - Age 50 with 25 years of service or age 55 with 10 or more years of service
Mortality	RP 2000 Combined Healthy Annuitant Mortality Table Projected to 2014

Other information      \* Note only eight years are presented as that is all of the available information. Data will be added as information is available until 10 years of such information is available.

## **Other Supplemental Information**

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# City of Grosse Pointe, Michigan

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

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Solid Waste Fund	Drug Forfeiture Fund	Debt Service Fund	
<b>Assets</b>						
Cash and cash equivalents	\$ 128,492	\$ 56,263	\$ 353,135	\$ 25,242	\$ 54,357	\$ 617,489
Receivables - Net	57,005	19,938	-	-	-	76,943
Inventory	-	-	6,685	-	-	6,685
Prepaid expenses	2,202	2,202	11,326	-	-	15,730
<b>Total assets</b>	<b>\$ 187,699</b>	<b>\$ 78,403</b>	<b>\$ 371,146</b>	<b>\$ 25,242</b>	<b>\$ 54,357</b>	<b>\$ 716,847</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,023	\$ 7,448	\$ 20,128	\$ -	\$ -	\$ 29,599
Accrued liabilities and other	415	415	11,517	-	-	12,347
<b>Total liabilities</b>	<b>2,438</b>	<b>7,863</b>	<b>31,645</b>	<b>-</b>	<b>-</b>	<b>41,946</b>
<b>Fund Balances</b>						
Nonspendable:						
Inventory	-	-	6,685	-	-	6,685
Prepays	2,202	2,202	11,326	-	-	15,730
Restricted:						
Roads	183,059	68,338	-	-	-	251,397
Police - Restricted use	-	-	-	25,242	-	25,242
Debt service	-	-	-	-	54,357	54,357
Assigned - Solid waste	-	-	321,490	-	-	321,490
<b>Total fund balances</b>	<b>185,261</b>	<b>70,540</b>	<b>339,501</b>	<b>25,242</b>	<b>54,357</b>	<b>674,901</b>
<b>Total liabilities and fund balances</b>	<b>\$ 187,699</b>	<b>\$ 78,403</b>	<b>\$ 371,146</b>	<b>\$ 25,242</b>	<b>\$ 54,357</b>	<b>\$ 716,847</b>

# City of Grosse Pointe, Michigan

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

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Solid Waste Fund	Drug Forfeiture Fund	Debt Service Fund	
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ 588,283	\$ -	\$ 245,597	\$ 833,880
State sources	294,694	104,282	-	-	-	398,976
Charges for services	-	-	146,599	-	-	146,599
Investment income	-	-	-	141	-	141
Other	-	-	12,400	6,044	-	18,444
Total revenue	294,694	104,282	747,282	6,185	245,597	1,398,040
<b>Expenditures</b>						
Current:						
Public safety	-	-	-	2,500	-	2,500
Public works	205,947	269,198	693,904	-	-	1,169,049
Capital outlay	-	-	8,915	3,149	-	12,064
Debt service:						
Principal	-	-	-	-	200,000	200,000
Interest and fiscal charges	-	-	-	-	40,000	40,000
Total expenditures	205,947	269,198	702,819	5,649	240,000	1,423,613
<b>Excess of Revenue Over (Under) Expenditures</b>	88,747	(164,916)	44,463	536	5,597	(25,573)
<b>Other Financing Sources -</b>						
Transfers in	-	200,000	-	-	-	200,000
<b>Net Change in Fund Balances</b>	88,747	35,084	44,463	536	5,597	174,427
<b>Fund Balances - Beginning of year</b>	96,514	35,456	295,038	24,706	48,760	500,474
<b>Fund Balances - End of year</b>	<u>\$ 185,261</u>	<u>\$ 70,540</u>	<u>\$ 339,501</u>	<u>\$ 25,242</u>	<u>\$ 54,357</u>	<u>\$ 674,901</u>

# City of Grosse Pointe, Michigan

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

	Pension Trust Fund	Postemployment Health Benefits Trust Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,291,646	\$ 29,437	\$ 1,321,083
Investments:			
Mutual funds	-	511,263	511,263
Interest in pooled investments	36,873,925	-	36,873,925
Interest receivable	858	-	858
Accounts receivable	-	207,746	207,746
Prepaid expenses and other assets	178,024	37,698	215,722
	38,344,453	786,144	39,130,597
Total assets			
<b>Liabilities</b>			
Accounts payable	6,824	4,749	11,573
Due to other governmental units	-	8,383	8,383
	6,824	13,132	19,956
Total liabilities			
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 38,337,629</b>	<b>\$ 773,012</b>	<b>\$ 39,110,641</b>

# City of Grosse Pointe, Michigan

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

	Pension Trust Fund	Postemployment Health Benefits Trust Fund	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 4,151	\$ 6,799	\$ 10,950
Net increase in fair value of investments	4,460,528	13,039	4,473,567
Investment-related expenses	(150,025)	(5,500)	(155,525)
Net investment income	4,314,654	14,338	4,328,992
Contributions:			
Employer	-	500,777	500,777
Employee	144,133	53,037	197,170
Net contributions	144,133	553,814	697,947
Total additions	4,458,787	568,152	5,026,939
<b>Deductions</b>			
Benefit payments	2,637,431	-	2,637,431
Health insurance payments	-	454,771	454,771
Total deductions	2,637,431	454,771	3,092,202
<b>Net Increase in Net Position Held in Trust</b>	1,821,356	113,381	1,934,737
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	36,516,273	659,631	37,175,904
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 38,337,629</b>	<b>\$ 773,012</b>	<b>\$ 39,110,641</b>