City of Farmington Hills
Employees' Retirement System and
Post-Retirement Healthcare Finance Fund

Financial Report

with Supplemental Information

June 30, 2018

Contents

EMPLOYEES' RETIREMENT SYSTEM

November 5, 2018

Board of Trustees of the City of Farmington Hills Employees' Retirement System

I am pleased to submit the City of Farmington Hills Employees' Retirement System and Post-Retirement Healthcare Finance Fund Annual Financial Report for the fiscal year ended June 30, 2018. This report was prepared by the City of Farmington Hills Finance Department in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board. This report consists of management representations concerning the finances of the City of Farmington Hills Employees' Retirement System. Therefore, responsibility for the accuracy, completeness, reliability, and fairness of the financial data herein, including all disclosures, rests with the administration and management of the City of Farmington Hills Employees' Retirement System. I believe the data presented are accurate in all material aspects, that they are presented in a manner designed to fairly set forth the financial position of the Retirement System, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Retirement System's financial affairs have been included. The statements have been audited in accordance with generally accepted auditing standards by Plante & Moran, PLLC, a certified public accounting firm licensed by the State of Michigan.

Since the report consists of management's representations concerning the finances of the City of Farmington Hills Employees' Retirement System, a comprehensive internal control framework that is designed both to protect the Retirement System's assets from loss, theft, or misuse and to compile sufficient reliable information for preparation of the City of Farmington Hills Employees' Retirement System's financial statements in conformity with GAAP has been established. However, due to the fact that the internal control systems should be cost effective, the Retirement System's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Plante & Moran, PLLC has audited the City of Farmington Hills Employees' Retirement System's financial statements to provide reasonable assurance that the Retirement System's financial statements for the fiscal year ended June 30, 2018 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Farmington Hills Employees' Retirement System's financial statements for the fiscal year ended June 30, 2018 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&As for both the Employees' Retirement System and Post-Retirement Healthcare Finance Fund and should be read in conjunction with them. The City of Farmington Hills Employees' Retirement System and Post-Retirement Healthcare Finance Fund MD&As can be found immediately following each report of the independent auditor.

Profile of the Retirement System

The City of Farmington Hills Employees' Retirement System was established on January 1, 1966 for the purpose of providing retirement income, in the form of a defined benefit, and retiree health care to qualifying employees and former employees, and survivor income to their qualifying beneficiaries. The administration, management, and responsibility for the proper operation of the Retirement System and for interpreting and making effective the provisions of the retirement ordinance are vested in the Retirement Board. The Retirement Board is comprised of seven members: two representing the Public Safety Departments, two representing the General, Teamsters, AFSCME, Court, and Dispatch members, two representing the residents of the City, and the Finance Director/Treasurer (who serves as the Retirement System's Administrator). The Board selects its Investment Consultant, Attorney, Actuary, Auditor, and the Custodian.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services from many employees of the Finance Department, in particular the hard work of Susan Hardy, Pension Accountant and Shu-Fen Lin, Controller. The independent auditing firm of Plante & Moran, PLLC provided assistance for proper presentation in the form of counsel, suggestions, and direct input. Credit also must be given to the other Board of Trustees for their support in maintaining the highest standards of professionalism in the management of the City of Farmington Hills Employees' Retirement System's finances.

Respectfully submitted,

Steve Barr, Administrator
City of Farmington Hills Employees' Retirement System

City of Farmington Hills Employees' Retirement System

Financial Report
with Supplemental Information
June 30, 2018

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Retirement System Board of Trustees
City of Farmington Hills Employees' Retirement System
City of Farmington Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington Hills, Michigan (the "City") as of and for the year ended June 30, 2018, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 5, 2018, which contained an unmodified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to November 5, 2018.

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the City of Farmington Hills Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Farmington Hills, Michigan as of June 30, 2018 or the changes in its financial position or its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

In Relation to Opinion on Accompanying Financial Statements

The accompanying financial statements of the City of Farmington Hills Employees' Retirement System are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in the employer's net pension liability and related ratios, employer's contributions, and retirement system investment returns, 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.

To the Retirement System Board of Trustees
City of Farmington Hills Employees' Retirement System
City of Farmington Hills, Michigan

The letter of transmittal, 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Moran, PLLC

November 5, 2018

Management's Discussion and Analysis

The City of Farmington Hills Employees' Retirement System's (the "Plan") 2018 annual report is presented in conformity with the requirements of GASB Statement No. 34. This annual report consists of a discussion and analysis of the Plan's financial performance. It also provides an overview of the Plan's financial activities for the fiscal year ended June 30, 2018. Please read this report in conjunction with the Plan's financial statements.

Financial Highlights

- The Plan's total net position increased by $6,045,966, or approximately 4 percent, for the fiscal year ended June 30, 2018. This is due primarily to the net investment income return of 7.26 percent. The assets of the Plan are held in trust to meet future benefit obligations.

- The Plan's benefits are funded by contributions from the City of Farmington Hills, Michigan and active members, as well as by the investment income earned on the Plan's assets. From the schedule of changes in the employers' net pension liability and related ratios found in the required supplemental information (RSI) section of this report, the Plan's net position as a percentage of the total pension liability was 79.21 percent as of June 30, 2017 and 79.10 percent as of June 30, 2018, based on the GASB Statement No. 67 report provided by the City's actuary.

- Total employer and employee contributions were $5.6 million for the year ended June 30, 2017 and $6.7 million for year ended June 30, 2018.

- The net investment income was approximately $10.8 million. This investment income is attributable to relatively strong financial market performance in fiscal year 2018.

- Total deductions from net position increased by approximately $0.6 million, or 5.5 percent, from approximately $10.9 million for the year ended June 30, 2017 to approximately $11.5 million for the year ended June 30, 2018. The increase results primarily from increased pension payments during fiscal year 2018.

Management's Discussion and Analysis (continued)

Using this Annual Report

This annual report consists of four parts: (1) the independent auditor's report (the preceding section), (2) the management's discussion and analysis (this section), (3) the basic financial statements, and (4) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows, in a condensed format, the net position as of June 30, 2018 and 2017:

	2018	2017
Assets		
Cash	$ 12,677,736	$ 7,464,008
Investments	143,073,703	142,410,053
Other	124,959	87,918
Total assets	155,876,398	149,961,979
Liabilities		
Accounts payable	230,896	147,240
Due to primary government	19,586	20,789
Due to other funds	-	214,000
Total liabilities	250,482	382,029
Net Position Held in Trust for Benefits	**$ 155,625,916**	**$ 149,579,950**

Management's Discussion and Analysis (continued)

The following table shows the changes in net position during the year ended June 30, 2018 as compared to the year ended June 30, 2017:

	2018	2017
Additions		
Contributions - Employee	$ 914,277	$ 914,378
Contributions - Employer	5,753,424	4,710,485
Investment gain (loss)	10,842,019	16,879,281
Net additions	17,509,720	22,504,144
Deductions		
Pension payments	11,364,103	10,826,626
Contributions returned to employees	99,651	38,375
Total deductions	11,463,754	10,865,001
Net Increase (Decrease) in Net Position	**$ 6,045,966**	**$ 11,639,143**

Overall Fund Structure and Objectives

Active members of the City of Farmington Hills Employees' Retirement System earn service credit that entitles them to receive benefits in the future. The objective of the Plan is to establish and receive contributions that will accumulate assets during each member's years of employment that, along with investment income, will be sufficient to pay promised benefits after retirement. There were 16 new retirees in FY 2017-2018, of which 12 took annuity withdrawals.

Investment Objectives and Policy Guidelines

The retirement board of trustees has established policies and guidelines for the prudent investment and management of plan assets. The objectives are to provide for long-range liability and benefit needs of the Plan, giving consideration to or providing for the following:

- Diversification of investments to take advantage of opportunities in the capital markets
- Protecting principal from both market value and inflationary erosion
- Moderate risk taking
- Liquidity and current return on investments relative to anticipated cash flow requirements
- Projected return on investments relative to the funding objectives of the Plan
- Regular monitoring and evaluation of performance

Statement of Fiduciary Net Position

	June 30, 2018
Assets	
Cash and cash equivalents	$ 12,677,736
Investments: (Note 3)	
Common stock	59,095,058
Pooled funds	83,978,645
Accrued interest, dividends, and other receivables	93,203
Due from Post-Retirement Healthcare Finance Fund	31,756
Total assets	155,876,398
Liabilities	
Accounts payable	230,896
Due to primary government	19,586
Total liabilities	250,482
Net Position Restricted for Pensions	**$ 155,625,916**

See notes to financial statements.

Statement of Changes in Fiduciary Net Position

	Year Ended June 30, 2018
Additions	
Investment income:	
Interest and dividends	$ 2,546,976
Net change in fair value of investments	9,664,134
Investment-related expenses	(1,369,091)
Net investment income	10,842,019
Contributions:	
Employer contributions	5,753,424
Employee contributions	914,277
Total contributions	6,667,701
Total additions	17,509,720
Deductions	
Benefit payments	11,364,103
Contributions returned to employees	99,651
Total deductions	11,463,754
Net Increase in Net Position Held in Trust	6,045,966
Net Position Restricted for Pensions - Beginning of year	149,579,950
Net Position Restricted for Pensions - End of year	**$ 155,625,916**

See notes to financial statements.

Note 1 - Significant Accounting Policies

Reporting Entity

The City of Farmington Hills Employees' Retirement System (the "Plan") is a single-employer, defined benefit pension plan that is administered by the City of Farmington Hills Employees' Retirement System Board of Trustees. The Plan also has a defined contribution component that provides an option for those eligible to receive annuity withdrawals or a lump-sum payment of their cumulative employee contributions, plus earnings thereon, upon retirement. Plan benefits accrue to all general, court, police, and fire employees who qualify under the Plan.

The Plan’s financial statements are also included in the Comprehensive Annual Financial Report of the City of Farmington Hills, Michigan (the “City”) as a pension and other employee benefit trust fund.

Accounting and Reporting Principles

The Plan 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 (GASB).

Basis of Accounting

The Plan uses 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. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administrative costs are financed with plan net position.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments

Investments are stated 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 Plan's management.

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 - Pension Plan

Plan Administration

The City of Farmington Hills Employees' Retirement System Pension Board administers the City of Farmington Hills Pension Plan - a cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits for all eligible general, court, police, and fire plan members and their beneficiaries. Benefit terms have been established by employer policy and contractual agreements authorized by city ordinance, which may be amended by City Council actions.

Note 2 - Pension Plan (Continued)

Management of the Plan is vested in the Retirement Board, which consists of seven members - four elected by plan members, two appointed by City Council, and the City's finance director/treasurer, who serves as an ex-officio member.

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	307
Inactive plan members entitled to but not yet receiving benefits	13
Active plan members	269
Total plan members	589

The general group was closed to new hires as follows:

- Nonunion and AFSCME Union - Effective July 1, 2006
- Dispatcher Union - Effective January 1, 2007
- Teamsters Union - Effective January 1, 2008
- District Court Employees - Effective September 1, 2015

The general group consists of union employees from AFSCME and teamsters, nonunion employees, court employees, executive employees, and dispatch employees. The general group does not include firefighters, police officers, and police command employees.

Benefits Provided

The Plan provides retirement, disability, and death benefits to eligible plan members. Retirement benefits are calculated by multiplying the plan member's final average compensation (FAC) times the member's years of services times the multiplier applicable to the member's employee group. FAC is final average compensation consisting of the three highest consecutive years out of the last 10 years. FAC includes longevity on base pay for all employees plus lump-sum holiday pay for police, fire, and dispatch members. The multipliers per employee group are as follows:

General

AFSCME employees are eligible to retire if the sum of the plan member's age and years of service equals 80 (minimum age 55) or at the age of 60 with eight years of service. The multiplier for this group is 2.8 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 75 percent.

General

Nonunion, court, and teamsters employees are eligible to retire if the sum of the plan member's age and years of service equals 80 (minimum age 55) or at the age of 60 with eight years of service. The multiplier for this group is 2.8 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 80 percent.

General

Executive employees are eligible to retire if the sum of the plan member's age and years of service equals 80 (minimum age 55) or at the age of 60 with eight years of service. The multiplier for this group is 3.0 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 80 percent.

Note 2 - Pension Plan (Continued)

General

Dispatch employees are eligible to retire if the sum of the plan member's age and years of service equals 80 (minimum age 55) or at the age of 60 with eight years of service. The multiplier for this group is 2.65 percent up to 25 years of service (until age 67) or 2.375 percent up to 25 years of service (at age 67) and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 70 percent.

Firefighters hired prior to July 1, 2008 are eligible to retire with 25 years of service, regardless of age. The multiplier for this group is 2.8 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 75 percent. Firefighters hired subsequent to July 1, 2008 are eligible to retire at age 50, with 25 years of service. The multiplier for this group is 2.25 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 60 percent.

Police command employees are eligible to retire at the age of 50 with 25 years of service, or 30 years of service regardless of age with a minimum of 25 years as a sworn police officer. The multiplier for this group is 3.0 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 80 percent.

Police officers hired prior to January 1, 2008 are eligible to retire with 25 years of service, regardless of age. The multiplier for this group is 2.8 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 75 percent. Police officers hired subsequent to January 1, 2008 are eligible to retire at age 50 with 25 years of service. The multiplier for this group is 2.25 percent up to 25 years of service and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 60 percent.

An early retirement benefit is available and actuarially reduced from normal retirement age as follows:

- General employee - Age 57 with eight years of service
- Patrol/Fire employee - Age 50 with 20 years of service
- Police command employee - Age 50 with 15 years of service or under age 50 with 25 years of service as a sworn police officer

Plan members are eligible for deferred (vested) retirement benefits if a general employee has eight or more years of service (benefit begins at age 60) or a police/fire employee has 15 or more years of service (benefits generally begin at age 55).

In addition to the normal, early, and deferred retirement provisions, the Plan provides for duty disability benefits to qualifying members.

A pension shall be paid for life to a surviving spouse of an employee who dies in service provided the member attained age 57 and has eight years of service or the member has 10 or more years of credited service regardless of age and died while an employee of the City.

Prior to retirement, but not thereafter, a member may elect to receive a retirement benefit by one of the following three methods:

1. Straight-life Retirement Benefits

This allowance is a benefit payable to the member throughout his or her life. This is a nonsurvivor benefit and terminates upon the death of the member.

2. Survivor Allowance Options

Note 2 - Pension Plan (Continued)

Under three available options, a retiree receives a reduced straight-life benefit, payable for life. Upon death, the reduced pension benefit will continue to be paid throughout the beneficiary's life at the percentage option selected. The reduction of straight-life benefit is actuarially determined based on the ages of the member and his or her beneficiary at the time of retirement and the percentage option of primary benefit chosen. A greater reduction of straight-life benefit will be made to provide 100 percent of the primary pension benefit rather than 75 or 50 percent. The survivor allowance options are:

Option A - 100 percent of primary pension benefit
Option B - 75 percent of primary pension benefit
Option C - 50 percent of primary pension benefit

Should the named survivor beneficiary die before the retired member, the retired member's pension shall be recomputed (pop-up) to a straight-life pension.

3. Annuity Option

All city and court employees are eligible for the annuity option.

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Plan hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees 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 Pension Board in accordance with the city ordinance, union contracts, and plan provisions. The Plan's required contribution is determined after consideration of the required contribution rate of employees. For the year ended June 30, 2018, the average active member contribution rate was 4.50 percent of annual pay. The City's average contribution was 23.68 percent of annual payroll for police members and 20.57 percent of annual payroll for fire members. For general and court members, the City's contribution was $2,462,813 and $262,918, respectively.

Note 3 - Investments

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

The Plan has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Public Act 314 of 1965, as amended, as listed above. The Plan's deposits and investment policies are in accordance with statutory authority.

The Plan'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 Plan's deposits may not be returned to it. The Plan’s investment policy strives to minimize custodial credit risk by prequalifying the financial institutions, broker/dealers, and intermediaries with which the Plan does business. At year end, the Plan had $12,427,736 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Plan 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 Plan evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Investments (Continued)

Concentration of Credit Risk

The Plan is authorized by the State's Pension Investment Act to invest in common stocks, real estate, and various other investment vehicles, subject to certain limitations. As of year end, the Plan had multiple investments, which consisted mostly of pooled investments that exceeded 5.00 percent of the total portfolio. The Plan had 12.22 percent invested in Loomis Core Plus, 8.20 percent in Edgewood Growth Institutional Fund, and 5.60 percent in Vanguard FTSE Developed Markets Fund.

Risks and Uncertainties

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

Note 4 - Fair Value Measurements

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

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

The Plan has the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Debt securities - Mutual funds - Fixed income	$ 9,175,122	$ -	$ -	$ 9,175,122
Equity securities :				
Common stock	45,151,091	-	-	45,151,091
Mutual funds - Equity	25,035,597	-	-	25,035,597
ADRs and U.S.-held foreign stock	-	13,943,967	-	13,943,967
Total equity securities	70,186,688	13,943,967	-	84,130,655
Private equity funds	-	-	16,469,073	16,469,073
Total investments by fair value level	$ 79,361,810	$ 13,943,967	$ 16,469,073	109,774,850
Investments measured at net asset value (NAV) - Pooled equity funds				33,298,853
Total investments measured at fair value				$ 143,073,703

Note 4 - Fair Value Measurements (Continued)

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

The fair value of ADRs at June 30, 2018 was determined primarily based on Level 2 inputs. The Plan estimates the fair value of these investment using other inputs, such as the underlying security "best" price and exchange rate for underlying security's currency against the U.S. dollar.

The fair value of private equity funds at June 30, 2018 was determined primarily based on Level 3 inputs. The City estimates the fair value of these investments using the fund's fair value, which would be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The private equity funds class includes several private equity funds that invest in infrastructure, energy, shipping, real estate, and corporate debt securities. Total unfunded commitments on the private equity funds are $15,815,660.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the following table.

Investments in Entities that Calculate Net Asset Value per Share

The Plan holds shares or interests in investment companies 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 companies as a practical expedient.

As of June 30, 2018, 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
Pooled equity funds	$ 33,298,853	$ -	None	N/A

The pooled equity funds includes funds that invest in equity long/short hedge fund class, event-driven hedge fund class, global opportunities hedge fund class, and multistrategy hedge funds class. The fair values of the investments in these classes have been estimated using net asset value per share of the investments.

Note 5 - Pension Plan Investments - Policy and Rate of Return

Investment Policy

The 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 is in compliance with Michigan Public Act 347 of 2012 and manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Domestic equity	36.50 %
International equity	22.50
Domestic bonds	14.50
International bonds	3.50
Real estate	3.50
Alternative assets	14.50
Cash or cash equivalents	5.00
Total	100.00 %

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.26 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 - Pension Plan Reserves

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

Retiree Reserve

The retiree reserve is held in the retirement reserve fund and is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. Actuarially computed unfunded liabilities are to be covered by a transfer from the employer reserve. The amounts reserved may be used solely to pay monthly retiree benefit payments.

Employee Reserve

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

Employer Reserve

The employer reserve account is held in the pension reserve fund and is used to account for the residual net position balance in the Plan after funding the retiree reserve.

Note 6 - Pension Plan Reserves (Continued)

The balances of the reserve accounts at June 30, 2018 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	$ 98,149,676	$ 98,149,676
Employee reserve	17,375,659	17,375,659
Employer reserve	-	40,100,581

The activity within the reserve accounts for year ended June 30, 2018 is as follows:

	Member's Deposit Fund	Pension Reserve Fund	Retirement Reserve Fund
Balance - July 1, 2017	$ 17,182,365	$ 36,571,815	$ 95,825,770
Additions:			
Employee contributions	914,277	-	-
Employer contributions	-	5,753,424	-
Total investment income	821,725	2,767,878	7,252,416
Deductions:			
Contributions returned to employees	(99,651)	-	-
Pension and insurance premium payments	-	-	(11,364,103)
Transfers:			
Recommended by actuary	-	(4,992,536)	4,992,536
Pension awarded	(1,443,057)	-	1,443,057
Balance - June 30, 2018	$ 17,375,659	$ 40,100,581	$ 98,149,676

Note 7 - Net Pension Liability of the Plan

The components of the net pension liability of the City and the 47th District Court at June 30, 2018 were as follows:

Total pension liability	$ 196,754,972
Plan fiduciary net position	155,625,916
Plan's net pension liability	$ 41,129,056
Plan fiduciary net position as a percentage of the total pension liability	79.10 %

The net pension liability of $41,129,056 has been allocated separately to the City and to the 47th District Court. A special funding situation does not exist in accordance with Governmental Accounting Standards Board Statement No. 68 and, therefore, the City has not recorded the Court's proportionate share of the net pension liability. The City's proportionate share of the net pension liability is $39,249,558 at June 30, 2018.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, which used update procedures to roll forward the estimated liability to June 30, 2018. The valuation used the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.50 %	
Salary increases	4.50 - 23.50%	Average, including inflation
Investment rate of return	7.40%	Net of pension plan investment expense, including inflation

Mortality rates were based on the 2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB.

Note 7 - Net Pension Liability of the Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2018 for each major asset class included in the 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	7.50 %
International equity	8.50
Domestic bonds	2.50
International bonds	3.50
Real estate	4.50
Alternative assets	5.30

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City and the 47th District Court, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate:

	1 Percent Decrease (6.40%)	Current Discount Rate (7.40%)	1 Percent Increase (8.40%)
Net pension liability of the employers	$ 64,024,172	$ 41,129,056	$ 21,731,300

Note 8 - Risk Management

The Plan's exposure to noninvestment risk of loss is minimal; exposure is limited primarily to errors and omissions. The Plan manages risk by participating with the City of Farmington Hills, Michigan in the Michigan Municipal Risk Management Authority risk pool. The pension board has a $3 million fiduciary liability insurance policy with a $25,000 deductible that covers all pension board members.

Required Supplemental Information

Required Supplemental Information
Schedule of Investment Returns

Last Ten Fiscal Years

Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Annual money-weighted rate of return, net of investment expense	7.26 %	12.30 %	(1.80)%	(0.40)%	16.50 %	10.70 %	(1.70)%	20.70 %	15.50 %	(15.30)%

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

Last Ten Fiscal Years

	2018	2017**	2016	2015	2014	2013*	2012*	2011*	2010*	2009*
Total Pension Liability										
Service cost	$ 3,357,565	$ 3,373,013	$ 3,389,831	$ 3,345,050	$ 3,412,039	$ -	$ -	$ -	$ -	$ -
Interest	13,858,941	13,507,444	12,897,603	12,530,511	12,050,921	-	-	-	-	-
Changes in benefit terms	-	-	122,932	-	-	-	-	-	-	-
Differences between expected and actual experience	77,423	(1,021,725)	(677,524)	(1,437,308)	-	-	-	-	-	-
Changes in assumptions	2,085,820	-	(2,974,074)	-	-	-	-	-	-	-
Benefit payments, including refunds	(11,463,754)	(10,865,001)	(10,148,144)	(8,984,021)	(9,085,912)	-	-	-	-	-
Net Change in Total Pension Liability	7,915,995	4,993,731	2,610,624	5,454,232	6,377,048	-	-	-	-	-
Total Pension Liability - Beginning of year	188,838,977	183,845,246	175,347,196	169,892,964	163,515,916	-	-	-	-	-
Total Pension Liability - End of year	**$ 196,754,972**	**$ 188,838,977**	**$ 177,957,820**	**$ 175,347,196**	**$ 169,892,964**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position										
Contributions - Employer	$ 5,753,424	$ 4,710,485	$ 4,710,931	$ 4,882,377	$ 4,557,473	$ -	$ -	$ -	$ -	$ -
Contributions - Member	914,277	914,378	907,655	896,588	892,150	-	-	-	-	-
Net investment income (loss)	10,968,769	16,113,238	(3,173,808)	(1,418,620)	22,334,550	-	-	-	-	-
Administrative expenses	(289,010)	(289,700)	(284,222)	(409,172)	(304,659)	-	-	-	-	-
Benefit payments, including refunds	(11,463,754)	(10,865,001)	(10,148,142)	(8,984,023)	(9,085,912)	-	-	-	-	-
Other	162,260	1,055,743	641,977	6,212	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	6,045,966	11,639,143	(7,345,609)	(5,026,638)	18,393,602	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	149,579,950	137,940,807	145,286,416	150,313,054	131,919,452	-	-	-	-	-
Plan Fiduciary Net Position - End of year	**$ 155,625,916**	**$ 149,579,950**	**$ 137,940,807**	**$ 145,286,416**	**$ 150,313,054**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan's Net Pension Liability - Ending	**$ 41,129,056**	**$ 39,259,027**	**$ 40,017,013**	**$ 30,060,780**	**$ 19,579,910**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.10 %	79.21 %	77.51 %	82.86 %	88.48 %	- %	- %	- %	- %	- %
Covered Employee Payroll	$ 20,036,687	$ 19,980,215	$ 19,857,814	$ 20,213,039	$ 21,343,777	$ -	$ -	$ -	$ -	$ -
Plan's Net Pension Liability as a Percentage of Covered Employee Payroll	205.27 %	196.49 %	201.52 %	148.72 %	91.74 %	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

** The June 30, 2016 total pension liability was restated in the June 30, 2017 actuarial valuation to include the retiree healthcare opt-out stipend payments.

Required Supplemental Information
Schedule of Employers' Contributions

Last Ten Fiscal Years

Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 5,370,490	$ 4,710,485	$ 4,710,931	$ 4,882,377	$ 4,557,473	$ 4,302,129	$ 4,482,745	$ 4,008,049	$ 3,710,289	$ 3,664,637
Contributions in relation to the actuarially determined contribution	5,753,424	4,710,485	4,710,931	4,882,377	4,557,473	4,302,129	4,482,745	4,008,049	3,710,289	3,664,637
Contribution Excess	**$ 382,934**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Employee Payroll	$ 20,036,687	$ 19,980,215	$ 19,857,814	$ 20,213,039	$ 21,343,777	$ 19,898,614	$ 20,415,113	$ 21,236,510	$ 21,749,242	$ 24,904,782
Contributions as a Percentage of Covered Employee Payroll	28.71 %	23.58 %	23.72 %	24.15 %	21.35 %	21.62 %	21.96 %	18.87 %	17.06 %	14.71 %

Notes to Schedule of Employers' Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll (level dollar method for general and court divisions)
Remaining amortization period	Police and fire: 27 years (closed) Court employees: 14 years (closed)
Asset valuation method	General employees: 11 years (closed) Five-year smoothed market
Inflation	2.50 percent
Salary increase	4.50 to 7.50 percent (general and court), 4.50 percent to 23.50 percent (police), 4.50 percent to 20.50 percent (fire)
Investment rate of return	7.40 percent - Net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB
Other information	None

City of Farmington Hills
Post-Retirement Healthcare Finance Fund

Financial Report
with Supplemental Information
June 30, 2018

plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Retirement System Board of Trustees
City of Farmington Hills
Post-Retirement Healthcare Finance Fund
City of Farmington Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington Hills, Michigan (the "City") as of and for the year ended June 30, 2018, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 5, 2018, which contained an unmodified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to November 5, 2018.

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the City of Farmington Hills Post-Retirement Healthcare Finance Fund and do not purport to, and do not, present fairly the financial position of the City of Farmington Hills, Michigan as of June 30, 2018 or the changes in its financial position or its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

In Relation to Opinion on Accompanying Financial Statements

The accompanying financial statements of the City of Farmington Hills Post-Retirement Healthcare Finance Fund are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Required Supplemental Information

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

To the Retirement System Board of Trustees
City of Farmington Hills
Post-Retirement Healthcare Finance Fund
City of Farmington Hills, Michigan

The letter of transmittal, 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Moran, PLLC

November 5, 2018

Management's Discussion and Analysis

The City of Farmington Hills Post-Retirement Healthcare Finance Fund's (the "Fund") 2018 annual report is presented in conformity with the requirements of GASB Statement No. 34. This annual report consists of a discussion and analysis of the Fund's financial performance. It also provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the Fund's financial statements.

Financial Highlights

- The Fund's total net position increased by approximately $4.0 million, or 5.4 percent, for the fiscal year ended June 30, 2018. This is due primarily to the net investment income return of 7.16 percent. The assets of the Fund are held in trust to meet future benefit obligations.

- The Fund's benefits are funded by contributions from the City of Farmington Hills, Michigan (the "City") and active members, as well as by the investment income earned on the Fund's assets. From the schedule of changes in the employers' net OPEB liability and related ratios found in the required supplemental information (RSI) section of this report, the funded ratio for the Fund was 108.9 percent as of the June 30, 2018 actuarial valuation prepared in accordance with GASB Statement No. 74. The funded ratio for the Fund at June 30, 2017 was 107.5 percent.

- Total contributions were approximately $2.1 million for the year ended June 30, 2017 and $1 million for the year ended June 30, 2018. This is due to a reduction in the annual required contribution in fiscal year 2018, as calculated by the City's actuary.

- The net investment income was approximately $5.4 million. This investment income is attributable to a relatively strong financial market performance in fiscal year 2018.

- Total deductions from net position increased by approximately $132,000, or 5.8 percent, for the year ended June 30, 2018. The increase results primarily from higher insurance premium payments in fiscal year 2018.

Using this Annual Report

This annual report consists of four parts: (1) the independent auditor’s report (the preceding section), (2) management’s discussion and analysis (this section), (3) the basic financial statements, and (4) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows, in a condensed format, the net position as of June 30, 2018 and 2017:

	2018	2017
Assets		
Cash	$ 6,502,856	$ 3,808,007
Investments	71,133,421	68,204,826
Receivables	9,680	1,038,713
Due from other funds	-	214,000
Total assets	77,645,957	73,265,546
Liabilities		
Accounts payable	74,549	59,584
Due to primary government	386,642	29,635
Due to Employees' Retirement System	31,756	-
Total liabilities	492,947	89,219
Net Position Held in Trust for Benefits	**$ 77,153,010**	**$ 73,176,327**

Management's Discussion and Analysis (continued)

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

	2018	2017
Additions		
Contributions - Employee	$ 249,325	$ 255,459
Contributions - Employer	776,762	1,794,724
Investment income	5,378,583	8,064,737
Net additions	6,404,670	10,114,920
Deductions		
Benefit payments	2,389,014	2,260,012
Contributions returned to employees	38,973	35,885
Total deductions	2,427,987	2,295,897
Net Increase in Net Position	**$ 3,976,683**	**$ 7,819,023**

Overall Fund Structure and Objectives

Active members of the City of Farmington Hills Post-Retirement Healthcare Finance Fund earn service credit that entitles them to receive medical benefits in the future. The objective of the Fund is to establish and receive contributions that will accumulate assets during each member's years of employment that, along with regular investment income, will be sufficient to pay promised medical benefits after retirement.

Investment Objectives and Policy Guidelines

The City of Farmington Hills, Michigan administers all the healthcare plans for its employees and retirees. The City continues to review its health plans to assure they comply with all federal and state laws and may have to modify its plans from time to time to meet applicable requirements.

The obligation of the Fund with regard to retiree health benefits shall be solely to invest its retiree health assets to make disbursements from those retiree health assets for the retiree health benefits for qualifying retirees and beneficiaries. The Retirement Board of Trustees has established policies and guidelines for the prudent investment and management of fund assets. Its objective is to provide for long-range liability and benefit needs of the Fund, giving consideration to or providing for the following:

- Diversification of investments to take advantage of opportunities in the capital markets
- Protecting principal from both market value and inflationary erosion
- Moderate risk taking
- Liquidity and current return on investments relative to anticipated cash flow requirements
- Projected return on investments relative to the funding objectives of the Fund
- Regular monitoring and evaluation of performance

City of Farmington Hills
Post-Retirement Healthcare Finance Fund

Statement of Fiduciary Net Position

	June 30, 2018
Assets	
Cash and cash equivalents	$ 6,502,856
Investments: (Note 3)	
Common stock	32,874,763
Pooled funds	30,450,582
Exchange-traded funds	7,808,076
Receivables	9,680
Total assets	77,645,957
Liabilities	
Accounts payable	74,549
Due to primary government	386,642
Due to Employees' Retirement System	31,756
Total liabilities	492,947
Net Position Restricted for OPEB	**$ 77,153,010**

Statement of Changes in Fiduciary Net Position

	Year Ended June 30, 2018
Additions	
Investment income:	
Interest and dividends	$ 1,723,660
Net change in fair value of investments	4,207,522
Investment-related expenses	(552,599)
Net investment income	5,378,583
Contributions:	
Employer contributions	776,762
Employee contributions	249,325
Total contributions	1,026,087
Total additions	6,404,670
Deductions	
Benefit payments	2,389,014
Contributions returned to employees	38,973
Total deductions	2,427,987
Net Increase in Net Position for OPEB	3,976,683
Net Position Restricted for OPEB - Beginning of year	73,176,327
Net Position Restricted for OPEB - End of year	**$ 77,153,010**

Note 1 - Significant Accounting Policies

Reporting Entity

The City of Farmington Hills Post-Retirement Healthcare Finance Fund (the "Fund") is a fund of the City of Farmington Hills, Michigan (the "City") that was created to account for employer funding of postretirement healthcare benefits under Public Act 149 of 1999. The Fund is administered by the City of Farmington Hills, Michigan Employees' Retirement System Board of Trustees and is included in the Comprehensive Annual Financial Report of the City of Farmington Hills, Michigan as a pension and other employee benefit trust fund.

Postretirement healthcare benefits accrue to all general, court, police, and fire employees who qualify under the Fund.

Accounting and Reporting Principles

The Fund 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 (GASB).

Basis of Accounting

The Fund uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Fund member contributions are recognized in the period in which the contributions are due. Employer contributions to the Fund are recognized when due pursuant to legal requirements. Postretirement healthcare benefits and refunds are recognized when due and payable.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments

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

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 - Fund Description

The City provides postretirement healthcare benefits (in accordance with certain labor contracts) for employees if they reach the normal retirement age while working for the City.

Note 2 - Fund Description (Continued)

The State of Michigan's Publicly Funded Health Insurance Contribution Act, also known as PA 152, which was signed into law in September 2011, created a "hard cap" on the amount the City will contribute to its medical benefit plans for employees. The hard cap became effective on April 1, 2012 for the City of Farmington Hills, Michigan and applied to all city employees and collective bargaining agreements executed on or after September 15, 2011. It applied to the groups not impacted on April 1, 2012 upon the expiration of their collective bargaining agreements on July 1, 2012. These caps are adjusted annually by October 1 of each year to apply to the following calendar year, based on the change in the medical care component of the United States Consumer Price Index (CPI) for the most recent 12-month period.

Note 3 - Investments

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

The Fund has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Public Act 314 of 1965, as amended, as listed above. The Fund's deposits and investments are in accordance with statutory authority.

The Fund'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 Fund's deposits may not be returned to it. The Fund's investment policy strives to minimize custodial credit risk by prequalifying the financial institutions, broker/dealers, and intermediaries with which the Fund does business. At year end, the Fund had $6,252,856 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Fund 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 Fund evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

The Fund is authorized by the State's Pension Investment Act to invest in common stocks, real estate, and various other investment vehicles, subject to certain limitations. As of year end, the Fund had multiple investments, which consisted mostly of pooled investments that exceeded 5 percent of the total portfolio. The Fund had 9.29 percent invested in Loomis Sayles Investment Grade Bond Fund, 8.13 percent invested in Edgewood Growth Fund, and 5.07 percent invested in Vanguard FTSE Developed Markets Fund.

Risks and Uncertainties

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

Note 4 - Fair Value Measurements

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

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

The Fund has the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Debt securities:				
Mutual funds - Fixed income	$ 11,951,274	$ -	$ -	$ 11,951,274
EFT - Fixed income	2,058,036	-	-	2,058,036
Total debt securities	14,009,310	-	-	14,009,310
Equity securities:				
Common stocks	32,874,763	-	-	32,874,763
ETF - Equity	5,750,040	-	-	5,750,040
Mutual funds - Equity	6,309,907	-	-	6,309,907
Total equity securities	44,934,710	-	-	44,934,710
Private equity funds	-	-	6,609,426	6,609,426
Total investments by fair value level	$ 58,944,020	$ -	$ 6,609,426	65,553,446
Investments measured at net asset value (NAV) - Pooled equity funds				5,579,975
Total investments measured at fair value				$ 71,133,421

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

The fair value of private equity funds at June 30, 2018 was determined primarily based on Level 3 inputs. The City estimates the fair value of these investments using the partnership's fair value, which would be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Total unfunded commitments on the private equity funds is $6,150,825.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the following table.

Note 4 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Fund holds shares or interests in investment companies 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 companies as a practical expedient.

As of June 30, 2018, 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
Pooled equity funds	$ 5,579,975	$ -	None	N/A

The pooled equity funds includes funds that invest in equity long/short hedge fund class, event-driven hedge fund class, global opportunities hedge fund class, and multistrategy hedge funds class. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The private equity funds class includes several private equity funds that invest in infrastructure, energy, shipping, real estate, and corporate debt securities.

Note 5 - Risk Management

The Fund’s exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The pension board has a $3 million fiduciary liability insurance policy with a $25,000 deductible that covers all pension board members.

Note 6 - Other Postemployment Benefit Plan

Plan Administration

The City of Farmington Hill's Employees' Retirement System Pension Board administers the City of Farmington Hill's Post-Retirement Healthcare Finance Fund, a cost-sharing multiple-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for all general, court, police, and fire plan members and their beneficiaries.

Management of the Fund is vested with the the pension board, which consists of seven members - four elected by plan members, two appointed by City Council, and the City's finance director/treasurer, who serves as an ex-officio member.

Plan Membership

The following members were covered by the benefit terms as of June 30, 2016 (most recent actuarial valuation):

Inactive plan members or beneficiaries currently receiving benefits	168
Active plan members	233
Total employees covered by the plan	401

Note 6 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

The Fund provides healthcare and prescription benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Fund. Benefits terms have been established by employer policy and contractual agreements authorized by city ordinance, which may be amended by City Council actions.

Contributions

Contribution requirements of plan members are established and may be amended by the pension board in accordance with the city ordinance, union contracts, and plan provisions. The Retirement Board establishes contribution rates based on an actuarially determined rate per a funding valuation. For the year ended June 30, 2018, the City's contribution was $776,762. Plan members are required to contribute at 1.50 percent of pay.

Net OPEB Asset

The components of the net OPEB asset at June 30, 2018 were as follows:

Total OPEB liability	$ 70,890,440
Fund fiduciary net position	77,153,010
Net OPEB asset	$ (6,262,570)
Fund fiduciary net position as a percentage of the total OPEB liability	108.83 %

The net OPEB asset of $6,262,570 has been allocated separately to the City and to the 47th District Court. The City's proportionate share of the net OPEB asset is $5,793,708.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, which used update procedures to roll forward the estimated liability to June 30, 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%	
Healthcare cost trend rate	9.00%	Graded down to 3.50%
Salary increases	4.5 - 23.5%	Average, including inflation
Investment rate of return	7.50%	Net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows

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

Note 6 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.50 %
International equity	8.50
Domestic bonds	2.50
International bonds	3.50
Real estate	4.50
Alternative assets	4.18

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset, calculated using the discount rate of 7.50 percent. The following also reflects what the employers's net OPEB liability (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 OPEB liability (asset)	$ 2,341,608	$ (6,262,570)	$ (13,507,722)

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB asset, calculated using the healthcare cost trend rate of 9.00 percent, as well as what the net OPEB (asset) liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (8.00 percent, decreasing to 2.50 percent) or 1 percentage point higher (10.00 percent, decreasing to 4.50 percent) than the current rate:

	1 Percent Decrease (8.00% decreasing to 2.50%)	Current Discount Rate (9.00% decreasing to 3.50%)	1 Percent Increase (10.00% decreasing to 4.50%
Net OPEB (asset) liability	$ (15,290,251)	$ (6,262,570)	$ 4,715,013

Note 6 - Other Postemployment Benefit Plan (Continued)

Investment Policy

The Fund'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 retirement board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Fund's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Domestic equity	25.00 %
International equity	18.00
Domestic bonds	19.00
International bonds	2.00
Real estate	5.00
Alternative assets	29.00
Cash or cash equivalents	2.00

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 7.16 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

OPEB Plan Reserves

In accordance with city ordinance, the following reserves are required to be set aside within the OPEB plan:

The healthcare benefits reserve is held in the healthcare reserve fund and the amounts reserved may be solely used pay retiree healthcare payments. The amount in the healthcare benefit reserve at June 30, 2018 was $50,611,246.

The employee reserve is held credited as employee contributions are received throughout the year; the Fund maintains a record of amounts contributed by each employee and credits interest annually at a rate of 5 percent. For any employee who terminates before vesting in the healthcare plan, his or her balance is returned to him or her; for those who stay until retirement, the balance is transferred into the healthcare benefits reserve. The amount in the employee reserve at June 30, 2018 was $5,471,479.

The employer reserve is used to account for the residual net position balance in the healthcare plan after funding the healthcare benefits reserve. The amount in the employee reserve at June 30, 2018 was $21,070,285.

Required Supplemental Information

Required Supplemental Information
Schedule of Investment Returns

Last Ten Fiscal Years

Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Annual money-weighted rate of return, net of investment expense	7.16 %	11.90 %	(1.70)%	(0.50)%	16.20 %	9.30 %	(0.10)%	19.40 %	12.10 %	(16.80)%

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

Last Ten Fiscal Years

	2018	2017*	2016*	2015*	2014*	2013*	2012*	2011*	2010*	2009*
Total OPEB Liability										
Service cost	$ 1,037,884	$ 1,051,678	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	5,054,791	4,851,673	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(866,514)	(826,276)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(2,427,987)	(2,295,896)	-	-	-	-	-	-	-	-
Net Change in Total OPEB Liability	2,798,174	2,781,179	-	-	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	68,092,266	65,311,087	-	-	-	-	-	-	-	-
Total OPEB Liability - End of year	**$ 70,890,440**	**$ 68,092,266**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position										
Contributions - Employer	$ 776,762	$ 1,794,724	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions - Member	249,325	255,459	-	-	-	-	-	-	-	-
Net investment income	5,394,607	8,093,512	-	-	-	-	-	-	-	-
Administrative expenses	(19,643)	(28,778)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(2,427,987)	(2,295,896)	-	-	-	-	-	-	-	-
Other	3,619	-	-	-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	3,976,683	7,819,021	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	73,176,327	65,357,306	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - End of year	**$ 77,153,010**	**$ 73,176,327**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net OPEB Liability - Ending	**$ (6,262,570)**	**$ (5,084,061)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	108.83 %	107.47 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %

* GASB Statement No. 74 was implemented for FYE June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

Note: OPEB contributions are not based on a measure of pay and, therefore, covered employee payroll information has been omitted in accordance with GASB Statement No 85.

Required Supplemental Information
Schedule of Employers' Contributions

Last Ten Fiscal Years

Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 776,762	$ 1,794,724	$ 1,808,068	$ 2,890,395	$ 2,892,858	$ 4,161,881	$ 3,955,250	$ 3,186,426	$ 2,971,747	$ 3,231,967
Contributions in relation to the actuarially determined contribution	776,762	1,794,724	1,808,068	2,890,875	4,292,810	3,375,239	3,311,151	3,186,426	2,971,747	3,231,967
Contribution Excess (Deficiency)	**$ -**	**$ -**	**$ -**	**$ 480**	**$ 1,399,952**	**$ (786,642)**	**$ (644,099)**	**$ -**	**$ -**	**$ -**

Note: OPEB contributions are not based on a measure of pay and, therefore, covered employee payroll information has been omitted in accordance with GASB Statement No. 85.

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30 of even numbered years. Additional information as of June 30, 2016, the latest actuarial valuation, follows:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar (closed)
Remaining amortization period	14 years
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Healthcare cost trend rates	3.50 to 9.00 percent
Salary increase	4.50 to 7.50 percent (general and court), 4.50 percent to 23.50 percent (police), 4.50 percent to 20.50 percent (fire)
Investment rate of return	7.50 percent - Net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB
Other information	None