

# City of Farmington Hills Employees' Retirement System

Financial Statements

June 30, 2019



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## **EMPLOYEES' RETIREMENT SYSTEM**

November 11, 2019

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 Annual Financial Report for the fiscal year ended June 30, 2019. 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 Yeo & Yeo, 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.

Yeo & Yeo 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, 2019 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, 2019 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&A for the Employees' Retirement System and should be read in conjunction with it. The City of Farmington Hills Employees' Retirement System MD&A 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 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 Yeo & Yeo 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,

A handwritten signature in cursive script that reads "SBarr".

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



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## Independent Auditors' Report

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

### Report on Financial Statements

We have audited the accompanying statements of fiduciary net position of the City of Farmington Hills Employees' Retirement System (the "System") as of June 30, 2019 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

### 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.

### Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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 auditor 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net position restricted for pension benefits at June 30, 2019 and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Note 1, the 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 as of June 30, 2019, and the changes in its financial position 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.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the schedule of changes in the net pension liability and related ratios, schedule of employers' contributions, and schedule of investment returns, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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 financial statements, and other knowledge we obtained during our audit of the 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 Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington Hills Employees' Retirement System's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary 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. The other supplementary 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 supplementary 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.

The letter of transmittal, which is the responsibility of management, 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.

*Yeo & Yeo, P.C.*

Auburn Hills, Michigan  
November 11, 2019

# **City of Farmington Hills Employees' Retirement System Management's Discussion and Analysis June 30, 2019**

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The City of Farmington Hills Employees' Retirement System's (the "Plan") 2018-2019 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, 2019. Please read this report in conjunction with the Plan's financial statements.

## **Financial Highlights**

- The Plan's total net position increased by \$864,291, or approximately 0.5 percent, for the fiscal year ended June 30, 2019. 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 and active members, as well as by the investment income earned on the Plan's assets. From the schedule of changes in the city 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 74.55 percent as of June 30, 2019 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 approximately \$6.7 million for the years ended June 30, 2019 and 2018.
- The net investment income was approximately \$6.2 million. This investment income is attributable to average financial market performance in fiscal year 2018-2019.
- Total deductions from net position increased by approximately \$0.6 million, or 4.8 percent, from approximately \$11.5 million for the year ended June 30, 2018 to approximately \$12.0 million for the year ended June 30, 2019. The increase results primarily from increased pension payments during fiscal year 2018-2019.

## **Using this Annual Report**

This annual report consists of six sections: (1) the letter of transmittal, (2) the independent auditor's report (the preceding section), (3) the management's discussion and analysis (this section), (4) the basic financial statements, (5) required supplementary information, and (6) other supplementary 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 supplementary information that further explains and supports the information in the financial statements.



**City of Farmington Hills  
Employees' Retirement System  
Management's Discussion and Analysis  
June 30, 2019**

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**Condensed Financial Information**

The table below shows, in a condensed format, the net position as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash	\$ 6,482,335	\$ 12,677,736
Investments	150,010,305	143,073,703
Other	<u>166,391</u>	<u>124,959</u>
Total assets	<u>156,659,031</u>	<u>155,876,398</u>
<b>Liabilities</b>		
Accounts payable	148,475	230,896
Due to primary government	<u>20,349</u>	<u>19,586</u>
Total liabilities	<u>168,824</u>	<u>250,482</u>
<b>Net Position Held in Trust for Benefits</b>	<b><u>\$ 156,490,207</u></b>	<b><u>\$ 155,625,916</u></b>

**City of Farmington Hills  
Employees' Retirement System  
Management's Discussion and Analysis  
June 30, 2019**

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The following table shows the changes in net position during the year ended June 30, 2019 as compared to the year ended June 30, 2018:

	<u>2019</u>	<u>2018</u>
<b>Additions</b>		
Contributions - Employee	\$ 917,588	\$ 914,277
Contributions - Employer	5,762,354	5,753,424
Investment income, net of expenses	<u>6,201,493</u>	<u>10,842,019</u>
Net Additions	<u>12,881,435</u>	<u>17,509,720</u>
<b>Deductions</b>		
Pension and insurance premium payments	12,010,440	11,364,103
Contributions returned to employees	<u>6,704</u>	<u>99,651</u>
Total Deductions	<u>12,017,144</u>	<u>11,463,754</u>
<b>Net (Decrease) Increase in Net Position</b>	<b><u>\$ 864,291</u></b>	<b><u>\$6,045,966</u></b>

**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 18 new retirees in fiscal year 2018-2019, 15 of whom took annuity withdrawals.

**City of Farmington Hills  
Employees' Retirement System  
Management's Discussion and Analysis  
June 30, 2019**

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**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

**Contacting the System's Management**

The financial report is intended to provide our citizens, taxpayers, customers, and investors a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Department, 31555 W. Eleven Mile Rd., Farmington Hills, MI 48336.

**City of Farmington Hills Employees' Retirement System**  
**Statement of Fiduciary Net Position**  
**June 30, 2019**

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**Assets**

Cash and cash equivalents	\$ 6,482,335
Investments:	
Equities	93,679,150
Fixed income	6,705,429
Other	49,625,726
Receivables	80,744
Due from other funds	<u>85,647</u>
 Total assets	 <u>156,659,031</u>

**Liabilities**

Accounts payable	148,475
Due to primary government	<u>20,349</u>
 Total liabilities	 <u>168,824</u>

**Net Position**

Restricted for pension benefits	<u><u>\$ 156,490,207</u></u>
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**City of Farmington Hills Employees' Retirement System**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2019**

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**Additions**

Contributions:

Employer	\$	5,762,354
Employee		<u>917,588</u>

Total contributions		<u>6,679,942</u>
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**Investment earnings**

Interest and dividends		2,597,028
Net increase in fair value		<u>4,982,951</u>

Total investment earnings		7,579,979
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Less investment-related expenses		<u>(1,378,486)</u>
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Net investment earnings		<u>6,201,493</u>
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Total additions		<u>12,881,435</u>
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**Deductions**

Benefit payments		12,010,440
Refunds of contributions		<u>6,704</u>

Total deductions		<u>12,017,144</u>
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Change in net position		864,291
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Net position - beginning of year		<u>155,625,916</u>
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Net position - end of year	\$	<u><u>156,490,207</u></u>
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**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting entity**

The City of Farmington Hills Employees' Retirement System (the Plan) is a cost-sharing multi-employer, defined benefit pension plan that is administered by the City of Farmington Hills Employees' Retirement System Board of Trustees (the Board) that contains two employers. The Plan also has a defined contribution component that provides the 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 report 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 Boards (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 are considered to be 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 Board administers the Plan – a cost-sharing multi-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.

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

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Employees covered by benefit terms**

At June 30, 2018, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	318
Inactive plan members entitled to but not yet receiving benefits	14
Active plan members	<u>259</u>
Total plan members	<u>591</u>

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) by the members years of service and then by the multiplier applicable to the member's employer group. The plan member's FAC consists of the three highest consecutive years of compensation out of the last ten 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:

- 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 8 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.
- 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 8 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.
- 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 8 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.

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

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- 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 8 years of service. The multiplier for this group is 2.80 percent up to 25 years of service (until age 67) and 1.0 percent for each year over 25 years of service, with a maximum multiplier of 75 percent, 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 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 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 8 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 8 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 8 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.
2. Survivor allowance options – 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 rather than 75 or 50 percent. Should the named survivor beneficiary die before the retired member,



**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

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the retired member's pension shall be recomputed (pop-up) to a straight-life pension. 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
3. Annuity option – All city and court employees are eligible for the annuity option.

In addition to the above survivor allowance options, all city and court employees may elect an annuity option.

**Contributions**

State law requires public employees 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 Board in accordance with the city ordinance, union contracts, and plan provisions. The Plan's required contribution is determined after consideration of the contracts, and plan provisions. For the year ended June 30, 2019, the average active member contribution rate was 4.50 percent of annual pay. The City's average contribution was 25.38 percent of annual payroll for police members and 21.16 percent of annual payroll for fire members. For general and court members, the City's contribution was \$2,365,004 and \$263,302, 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 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 refunded 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 \$6,232,335 of bank deposits that were uninsured or 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.

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

**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 the following investments that exceeded 5.00 percent of the Plan's total portfolio:

<u>Investment</u>	<u>Concentration</u>
Loomis Core Plus	16.18 %
Edgewood Growth Institutional Fund	10.62
Vanguard Institutional Index Fund	9.51

**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 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.

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equities</b>				
Common stock	\$ 36,730,270	\$ -	\$ -	\$ 36,730,270
Foreign common stock	-	9,510,638	-	9,510,638
Mutual funds	30,197,203	-	-	30,197,203
American depository receipts	-	17,241,039	-	17,241,039
Total equities	<u>66,927,473</u>	<u>26,751,677</u>	<u>-</u>	<u>93,679,150</u>
<b>Fixed income</b>				
Mutual fund - corporate bonds	<u>6,705,429</u>	<u>-</u>	<u>-</u>	<u>6,705,429</u>
<b>Other investments</b>				
Private equity funds	<u>-</u>	<u>-</u>	<u>41,108,590</u>	<u>41,108,590</u>
Total investments measured at fair value	<u>\$ 73,632,902</u>	<u>\$ 26,751,677</u>	<u>\$ 41,108,590</u>	141,493,169
<b>Investments measured at net asset value (NAV)</b>				
Pooled equity funds				<u>8,517,136</u>
Total investments				<u>\$ 150,010,305</u>

Common stock, mutual funds, and mutual fund – corporate bonds classified as Level 1 are valued using prices quoted in active markets for those securities.

The fair value of foreign common stock and American depository receipts was determined primarily based on Level 2 inputs. The Plan estimates the fair value of these investments using other inputs such as underlying security 'best' price and exchange rate for the underlying security's against the U.S. dollar.

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

The fair value of private equity funds at June 30, 2019 was determined primarily based on Level 3 inputs. The Plan 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 \$13,878,185.

**Investments in entities that calculate net asset value per share**

The Plan holds shares or interests in investments 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, 2019, the fair value and redemption values of those investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Pinehurst Institutional Fund Ltd	\$ 5,451,321	Quarterly, subject to a 25% investor level gate on March 31, June 30 and September 30.	100 days
Entrust Special Opportunities Fund III Ltd	2,465,906	Any time after the end of the commitment period	95 days
Entrust Capital Diversified Fund Ltd Class X	<u>599,909</u>	None permitted	N/A
Total pooled equity funds	<u>\$ 8,517,136</u>		

The pooled equity funds include funds that invest in equity long/short hedge fund class, event-driven hedge fund class, global opportunities hedge fund class, and multi-strategy hedge funds class. The fair values of investments in these classes have been estimated using net asset value per share of the investments. There are no unfunded commitments on the pooled equity funds.

**Note 5 - Investment 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 Board by a majority vote of its members. It is the policy of the 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 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 is the Board's adopted asset allocation policy as of June 30, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equities	41.00 %
International equities	16.00
Domestic bonds	18.00
International bonds	2.00
Real estate	10.00
Alternative assets	11.00
Cash and cash equivalents	2.00
	<u>100.00 %</u>

**Rate of return**

For the year ended June 30, 2019, the annual money-weighted rate of return on the Plan investments, net of Plan investment expense, was 3.64 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

**Note 6 - Plan Reserves**

In accordance with City ordinance, the following are required to be set aside within the 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 Plan, the member's balance is returned to them. For those members who stay until retirement, the balance is transferred into the retiree reserve.

**Employer reserve**

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

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

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 100,251,035	\$ 100,251,035
Employee reserve	17,645,816	17,645,816
Employer reserve	-	38,593,357

The activity within the reserve accounts for the year ended June 30, 2019 is as follows:

	<u>Retiree Reserve Fund</u>	<u>Employee Reserve Fund</u>	<u>Employer Reserve Fund</u>
<b>Beginning reserve balance</b>	\$ 98,149,675	\$ 17,375,658	\$ 40,100,581
<b>Additions</b>			
Employee contributions	-	917,588	-
Employer contributions	-	-	5,762,354
Investment income	3,822,437	817,343	1,561,716
Total additions	<u>3,822,437</u>	<u>1,734,931</u>	<u>7,324,070</u>
<b>Deductions</b>			
Contributions returned to employees	-	(6,704)	-
Pension and insurance premium payments	(12,010,440)	-	-
Total deductions	<u>(12,010,440)</u>	<u>(6,704)</u>	<u>-</u>
<b>Transfers</b>			
Recommended by actuary	8,831,294	-	(8,831,294)
Pension awarded	1,458,069	(1,458,069)	-
Total transfers	<u>10,289,363</u>	<u>(1,458,069)</u>	<u>(8,831,294)</u>
<b>Ending reserve balance</b>	<u>\$ 100,251,035</u>	<u>\$ 17,645,816</u>	<u>\$ 38,593,357</u>

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

**Note 7 - Net Pension Liability of the Plan**

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

Total pension liability	\$ 209,904,962
Plan fiduciary net position	<u>156,490,207</u>
Net pension liability	<u>\$ 53,414,755</u>
Plan fiduciary net position as a percentage of total pension liability	74.55%

The net pension liability of \$53,414,755 has been allocated separately to the City and to the 47<sup>th</sup> 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 47<sup>th</sup> District Court's proportionate share of the net pension liability. The City's proportionate share of the net pension liability is \$50,973,877 at June 30, 2019.

**Actuarial assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2018, which used update procedures to roll forward the estimated liability to June 30, 2019. The valuation used the following actuarial assumptions applied to all period included in the measurement:

Inflation	2.50%
Salary increases - average, including inflation	4.50 - 23.50%
Investment rate of return, net of Plan investment expense, including inflation	7.00%

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

**Discount rate**

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer 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 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 total pension liability.

**Investment rate of return**

The long-term expected rate of return on Plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2019 for each major asset class included in the Plan's target asset allocation, as disclosed in Note 5, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equities	7.50 %
International equities	8.50
Domestic bonds	2.50
International bonds	3.50
Real estate	4.50
Alternative assets	6.21

**City of Farmington Hills Employees' Retirement System**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Sensitivity of the net pension liability to changes in discount rate**

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 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 (6.00 percent) or percentage point higher (8.00 percent) than the current rate.

<b>1 Percent Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1 Percent Increase (8.00%)</b>
\$ 78,277,581	\$ 53,414,755	\$ 32,426,567

**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 in the Michigan Municipal Risk Management Authority risk pool. The Board has a \$3 million fiduciary liability insurance policy with a \$25,000 deductible that covers all Board members.

**City of Farmington Hills Employees' Retirement System**  
**Required Supplementary Information**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**June 30, 2019**

Fiscal year ended June 30,	2019	2018	2017*	2016	2015	2014
<b>Total Pension Liability</b>						
Service cost	\$ 3,412,880	\$ 3,357,565	\$ 3,373,013	\$ 3,389,831	\$ 3,345,050	\$ 3,412,039
Interest on the total pension liability	14,241,510	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	(4,214,378)	77,423	(1,021,725)	(677,524)	(1,437,308)	-
Changes in assumptions	11,727,121	2,085,820	-	(2,974,074)	-	-
Other changes	(1)	-	-	-	-	-
Benefit payments and refunds	<u>(12,017,142)</u>	<u>(11,463,754)</u>	<u>(10,865,001)</u>	<u>(10,148,144)</u>	<u>(8,984,021)</u>	<u>(9,085,912)</u>
Net change in total pension liability	13,149,990	7,915,995	4,993,731	2,610,624	5,454,232	6,377,048
Total pension liability - beginning	<u>196,754,972</u>	<u>188,838,977</u>	<u>183,845,246</u>	<u>175,347,196</u>	<u>169,892,964</u>	<u>163,515,916</u>
Total pension liability - ending (a)	<u>\$ 209,904,962</u>	<u>\$ 196,754,972</u>	<u>\$ 188,838,977</u>	<u>\$ 177,957,820</u>	<u>\$ 175,347,196</u>	<u>\$ 169,892,964</u>
<b>Plan Fiduciary Net Position</b>						
Employer contributions	\$ 5,762,354	\$ 5,753,424	\$ 4,710,485	\$ 4,710,931	\$ 4,882,377	\$ 4,557,473
Employee contributions	917,588	914,277	914,378	907,655	896,588	892,150
Pension plan net investment income (loss)	6,489,231	10,968,769	16,113,238	(3,173,808)	(1,418,620)	22,334,550
Benefit payments and refunds	(12,017,142)	(11,463,754)	(10,865,001)	(10,148,142)	(8,984,023)	(9,085,912)
Pension plan administrative expense	(288,204)	(289,010)	(289,700)	(284,222)	(409,172)	(304,659)
Other	<u>464</u>	<u>162,260</u>	<u>1,055,743</u>	<u>641,977</u>	<u>6,212</u>	<u>-</u>
Net change in plan fiduciary net position	864,291	6,045,966	11,639,143	(7,345,609)	(5,026,638)	18,393,602
Plan fiduciary net position - beginning	<u>155,625,916</u>	<u>149,579,950</u>	<u>137,940,807</u>	<u>145,286,416</u>	<u>150,313,054</u>	<u>131,919,452</u>
Plan fiduciary net position - ending (b)	<u>\$ 156,490,207</u>	<u>\$ 155,625,916</u>	<u>\$ 149,579,950</u>	<u>\$ 137,940,807</u>	<u>\$ 145,286,416</u>	<u>\$ 150,313,054</u>
Net pension liability (a-b)	<u>\$ 53,414,755</u>	<u>\$ 41,129,056</u>	<u>\$ 39,259,027</u>	<u>\$ 40,017,013</u>	<u>\$ 30,060,780</u>	<u>\$ 19,579,910</u>
Plan fiduciary net position as a percentage of total pension liability	74.55%	79.10%	79.21%	77.51%	82.86%	88.48%
Covered payroll	\$ 20,033,560	\$ 20,036,687	\$ 19,980,215	\$ 19,857,814	\$ 20,213,039	\$ 21,343,777
Net pension liability as a percentage of covered payroll	266.63%	205.27%	196.49%	201.52%	148.72%	91.74%

Note: 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 data 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.

**City of Farmington Hills Employees' Retirement System**  
**Required Supplementary Information**  
**Schedule of Employers' Contributions**  
**June 30, 2019**

Fiscal Year Ended	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2010	\$ 3,710,289	\$ 3,710,289	\$ -	\$ 21,749,242	17.06%
6/30/2011	4,008,049	4,008,049	-	21,236,510	18.87%
6/30/2012	4,482,745	4,482,745	-	20,415,113	21.96%
6/30/2013	4,302,129	4,302,129	-	19,898,614	21.62%
6/30/2014	4,557,473	4,557,473	-	21,343,777	21.35%
6/30/2015	4,882,377	4,882,377	-	20,213,039	24.15%
6/30/2016	4,710,931	4,710,931	-	19,857,814	23.72%
6/30/2017	4,710,485	4,710,485	-	19,980,215	23.58%
6/30/2018	5,370,490	5,753,424	(382,934)	20,036,687	28.71%
6/30/2019	5,577,463	5,762,354	(184,891)	20,033,560	28.76%

Notes: Actuarially determined contribution amounts 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	Closed, level percent of-payroll for the police and fire groups Closed, level dollar method for the general and court groups
Remaining amortization period	Police and fire: 26 years Court employees: 13 years General employees: 10 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	4.50 to 7.50% (general and court), 4.50% to 23.50% (police), 4.50% to 20.50% (fire)
Investment rate of return	7.40%
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



**City of Farmington Hills Employees' Retirement System**  
**Required Supplementary Information**  
**Schedule of Investment Returns**

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Fiscal Year Ended June 30,	Annual Return % *
2010	15.50%
2011	20.70%
2012	(1.70%)
2013	10.70%
2014	16.50%
2015	(0.40%)
2016	(1.80%)
2017	12.30%
2018	7.26%
2019	3.64%

\* Annual money-weighted rate of return, net of investment expenses

**City of Farmington Hills Employees' Retirement System**  
**Other Supplementary Information**  
**Schedule of Pension Amounts by Employer**  
**As of June 30, 2019**

Entity	Deferred Outflows of Resources					Deferred Inflows of Resources					Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Earnings on Pension Plan Investments	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
City of Farmington Hills	\$ 50,973,877	\$ 42,792	\$ 4,106,193	\$ 9,881,787	\$ -	\$ 14,030,772	\$ 3,734,420	\$ 614,091	\$ -	\$ 4,348,511	\$ 11,179,421	\$ -	\$ 11,179,421
47th District Court	2,440,878	2,049	196,639	473,151	-	671,839	178,836	29,387	-	208,223	535,286	-	535,286
Total for all entities	\$ 53,414,755	\$ 44,841	\$ 4,302,832	\$ 10,354,938	\$ -	\$ 14,702,611	\$ 3,913,256	\$ 643,478	\$ -	\$ 4,556,734	\$ 11,714,707	\$ -	\$ 11,714,707

**City of Farmington Hills Employees' Retirement System**  
**Other Supplementary Information**  
**Schedule of Employer Allocations**  
**June 30, 2019**

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<u>Employer</u>	<u>Actual Employer Contributions</u>	<u>Employer Allocation Percentage</u>
City of Farmington Hills	\$ 5,499,052	95.43%
47th District Court	<u>263,302</u>	<u>4.57%</u>
	<u>\$ 5,762,354</u>	<u>100.00%</u>