
City of Auburn Hills, Michigan

**Financial Report
with Supplemental Information
December 31, 2018**

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Auburn Hills, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining information of the City of Auburn Hills, Michigan (the "City") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the City of Auburn Hills, Michigan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining information of the City of Auburn Hills, Michigan as of December 31, 2018 and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 17 to the financial statements, during the year ended December 31, 2018, the City adopted a new accounting pronouncement called GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes accounting and financial reporting standards for other postemployment benefit plans provided to the employees of governmental entities. Our opinion is not modified with respect to this matter.

To the Honorable Mayor and Members
of the City Council
City of Auburn Hills, Michigan

Other Matters

Required Supplemental Information

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

Other Information

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

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

Plante & Moreau, PLLC

June 6, 2019

As management of the City of Auburn Hills, Michigan (the "City"), we offer readers this narrative overview and analysis of the financial activities for the year ended December 31, 2018.

Financial Highlights

- The City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard required the City to recognize on the face of the financial statements the net OPEB liability. The City's net OPEB liability at December 31, 2018 is \$17,073,942. Thus, the City's unrestricted net position decreased significantly to \$1.3 million compared to \$14.1 million reported in 2017.
- Property tax values increased resulting in property tax revenue of \$16.4 million, an increase of approximately \$474,000 over that of the prior fiscal year.
- A number of large infrastructure projects were completed or substantially completed in 2018. These included Auburn Road and Water main, Pontiac Road and Water main, Giddings Road, a portion of Hamlin Road, and a new Library roof. The Amphitheatre and Splash Pad was well underway by the end of the year as was improvements to the Opdyke Pathway. The City also obtained a new ladder truck for its fire operations.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplemental information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., the cost of pension and other postemployment benefits).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, and culture and recreation. The business-type activities of the City include providing water and sewage disposal as well as the City's golf course operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also six discretely presented component units. There are three separate Tax Increment Finance Authority Districts (TIFA), the Brownfield Redevelopment Authority (BRA), the Economic Development Corporation (EDC), and the Downtown Development Authority (DDA).

The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as part of the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into the following three categories:

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. The City adopts an annual appropriated budget for its General Fund and special revenue funds. A budgetary comparison statement has been provided for the General Fund and major special revenue funds to demonstrate compliance with this budget.
- **Proprietary funds** - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewage disposal activities and the City's golf course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the management of the fleet (supporting the needs of the City's vehicle and equipment needs) and the retiree health care program (supporting the funding of retiree health care for those employees eligible for OPEB). Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds include both the pension and other postemployment benefit trust funds and agency funds.

Notes and Other Information

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplemental information on pensions and OPEB.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$169,665,775 at December 31, 2018. Total liabilities include \$17.1 million related to Other Postemployment Benefits (OPEB) obligations representing the City's retiree healthcare future obligations. This is a new item reported as of December 31, 2018 as required by GASB Statement No. 75. (Refer to Note 13 of the Financial Statements)

City of Auburn Hills, Michigan

Management's Discussion and Analysis (Continued)

City's Net Position

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 60,210,029	\$ 60,787,490	\$ 36,715,208	\$ 33,898,317	\$ 96,925,237	\$ 94,685,807
Capital assets	70,939,158	65,805,234	77,186,468	69,229,926	148,125,626	135,035,160
Total assets	131,149,187	126,592,724	113,901,676	103,128,243	245,050,863	229,720,967
Deferred Outflows of Resources	3,116,561	487,934	263,099	35,515	3,379,660	523,449
Liabilities						
Current liabilities	3,870,946	2,168,204	3,466,788	2,269,094	7,337,734	4,437,298
Noncurrent liabilities	46,670,246	43,361,347	8,242,876	7,094,739	54,913,122	50,456,086
Total liabilities	50,541,192	45,529,551	11,709,664	9,363,833	62,250,856	54,893,384
Deferred Inflows of Resources	16,513,892	17,651,785	-	130,467	16,513,892	17,782,252
Net Position						
Net investment in capital assets	62,512,095	61,075,596	72,403,428	65,163,606	134,915,523	126,239,202
Restricted	3,406,429	4,464,874	776,610	776,610	4,183,039	5,241,484
Unrestricted	1,292,140	(1,641,148)	29,275,073	27,729,242	30,567,213	26,088,094
Total net position	<u>\$ 67,210,664</u>	<u>\$ 63,899,322</u>	<u>\$ 102,455,111</u>	<u>\$ 93,669,458</u>	<u>\$ 169,665,775</u>	<u>\$ 157,568,780</u>

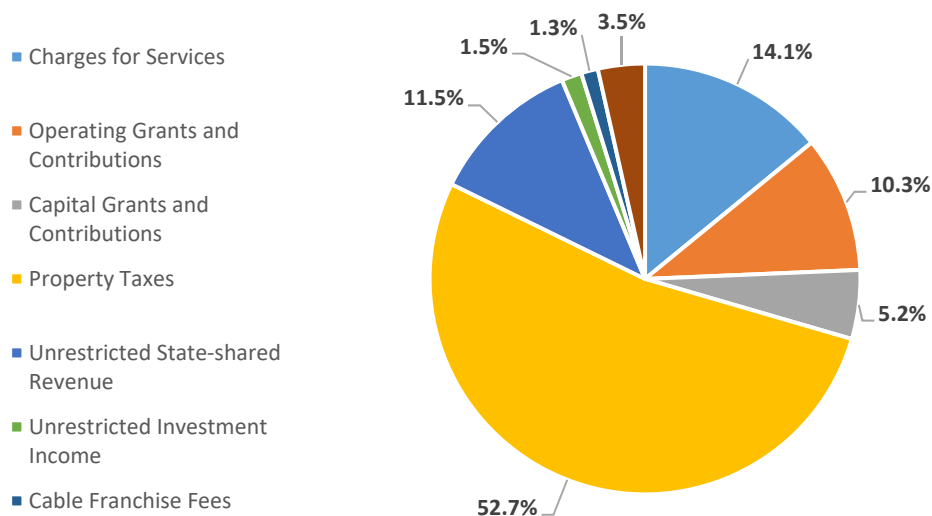
City's Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue:						
Charges for services	\$ 4,381,780	\$ 4,881,318	\$ 20,198,188	\$ 19,031,369	\$ 24,579,968	\$ 23,912,687
Operating grants	3,188,865	2,678,204	44,307	136,943	3,233,172	2,815,147
Capital grants	1,607,500	2,352,460	5,556,352	2,286,553	7,163,852	4,639,013
General revenue:						
Taxes	16,409,024	15,935,083	-	-	16,409,024	15,935,083
Intergovernmental	3,562,761	3,785,009	-	-	3,562,761	3,785,009
Investment earnings	472,165	217,161	339,722	119,391	811,887	336,552
Other revenue	1,487,282	1,567,587	-	-	1,487,282	1,567,587
Total revenue	31,109,377	31,416,822	26,138,569	21,574,256	57,247,946	52,991,078
Expenses						
General government	5,006,718	4,498,607	-	-	5,006,718	4,498,607
Public safety	12,974,420	14,639,831	-	-	12,974,420	14,639,831
Public works	7,788,123	7,011,418	-	-	7,788,123	7,011,418
Community and economic development	731,321	825,422	-	-	731,321	825,422
Recreation and culture	1,105,198	606,328	-	-	1,105,198	606,328
Debt service	242,255	208,519	-	-	242,255	208,519
Water and Sewer	-	-	15,660,024	15,693,915	15,660,024	15,693,915
Fieldstone Golf Club	-	-	1,642,892	1,838,633	1,642,892	1,838,633
Total expenses	27,848,035	27,790,125	17,302,916	17,532,548	45,150,951	45,322,673
Transfers	50,000	(1,857,500)	(50,000)	1,857,500	-	-
Change in Net Position	3,311,342	1,769,197	8,785,653	5,899,208	12,096,995	7,668,405

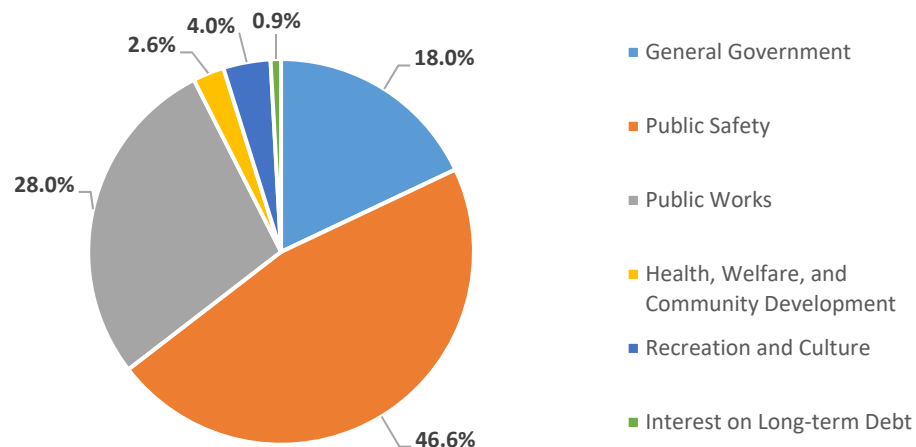
Governmental Activities

The City had an increase in net position of \$3.3 million in its governmental activities during 2018. This increase was due to the Fieldstone Golf course debt being paid in full in 2017 therefore not requiring a transfer of funds in 2018 to the Fieldstone Golf Fund. While total revenues decreased \$307,445 from that of the prior year, Property Tax revenue did increase in 2018 by \$473,941 highlighting the importance of the City's reliance on property tax revenue to maintain operations. Expenditures were stable compared to the prior year.

Revenue by Source - Governmental Activities



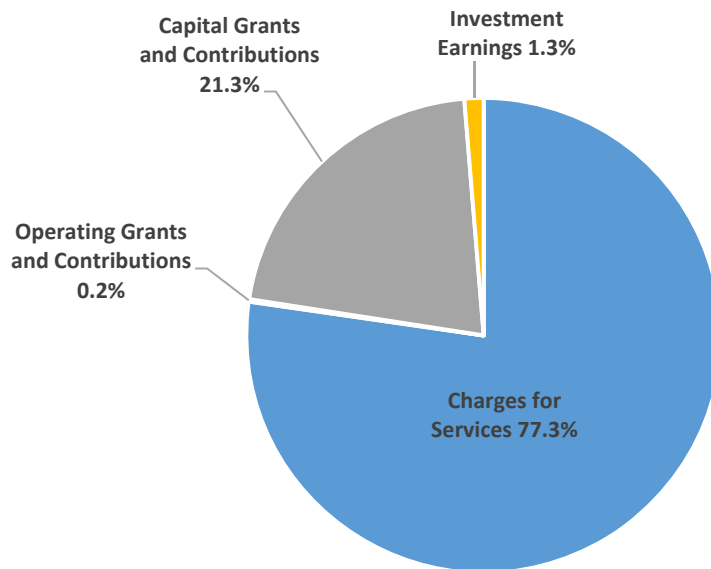
Program Expenses-Governmental Activities



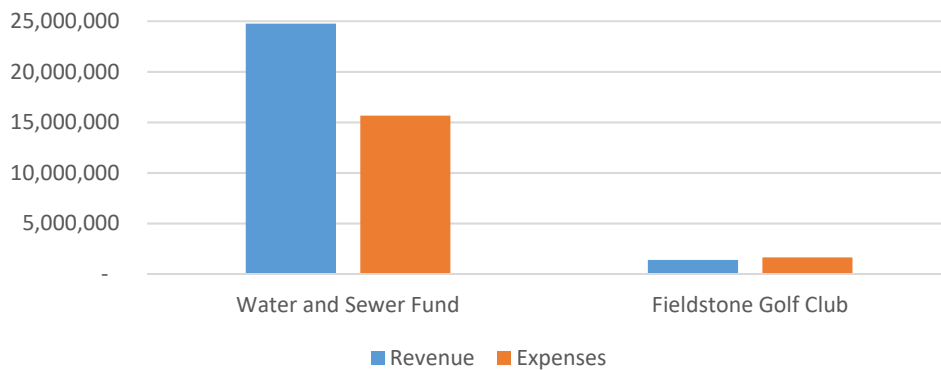
Business-Type Activities

The City had an increase in net position of approximately \$8.8 million. The majority of the increase is a result of \$5.6 million in contributed water and sewer assets in the Water and Sewer Fund which is \$3.3 million higher than that of the prior year.

Revenue by Source - Business-type Activities



Revenue and Expenses - Business-type Activities



Governmental Funds

At December 31, 2018, the City's governmental funds reported a combined fund balance of \$34.3 million, a decrease of \$2.2 million from the December 31, 2017 fund balance of \$36.5 million. The decrease in fund balance was primarily attributable to the use of funds held for specific projects funded by debt in the Capital Projects Fund. The Capital Projects fund balance at the end of 2018 was \$525,188 compared to \$4.7 million at the end of 2017. The decline of fund balance in the Capital Projects fund was offset by an increase in the General Fund.

The General Fund accounts for 72% of the governmental funds total expenditures.

The General Fund ended the fiscal year with an increase in fund balance of \$2.3 million. The unassigned portion of the fund balance represents 55.7% of total General Fund expenditures (excluding net transfers) for the 2018 fiscal year as compared to 96.5% for fiscal year ending 2017. In 2018, the City assigned an additional \$5.4 million of its fund balance to road repairs and infrastructure costs forecasted for 2020 since the majority of design and planning for this work has been budgeted in 2019. The City also continues to assign \$5 million for pension and retiree health care costs. Further, the City included an additional assignment for expenses expected in 2019 for the rebuilding of Hawkwoods Lodge that was not previously included in the original plan for this park. These prudent decisions assign additional fund balance necessary to address the increases in retiree liability by focusing on the current year service cost and the attributable interest on that cost for future benefits, acknowledgment of expected future capital commitments beyond the current year, and known unplanned changes in planned projects that may be approved by City Council action.

Revenue remained stable from 2018 to 2017. Though the City recognized a \$569,739 contribution for the Amphitheatre/Splash Pad project from the Auburn Hills Community Foundation as well as an increase in Property tax revenue of \$474,000, it saw decreases of \$366,000 in state funds which included a decrease in personal property tax reimbursement. In addition, a reduction of \$585,000 in revenue primarily due to a reduction in new development permits and fees was experienced compared to the prior year as the City is nearly built out

Expenditures (not including transfers) in the General Fund increased by approximately \$2.6 million in 2018 compared to 2017. This is due primarily to a \$776,000 increased actuarial funding requirement over that of the prior year and a \$1 million contribution to the Retiree Health Care trust, to reflect the City's continued commitment and preparedness to fulfill its commitment to retirees. Also, the increased expense over that of last year includes the movement of the Auburn Hills Community Foundation's \$569,739 contribution to the City out of the general fund and to the Tax Increment Financing Authority (TIFA) to support the construction of the Amphitheatre/Splash Pad since this asset is reflected in as well as financially supported by TIFA-A. The Fire Department also purchased several new pieces of equipment with increased equipment expenditures over that of last year of \$326,000 representing a 2018 expense of \$462,000. These purchases included needed replacements of breathing units for the firefighters as well as upgrades to necessary life-saving equipment for on-the-scene medical attention.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the business-type activities portion of the government-wide financial statements.

The unrestricted portion of the net position in the Water and Sewer fund as of December 31, 2018 is \$27.8 million which is the same as the prior year. The overall net position, however, increased \$8.5 million.

The City has been a member of the North Oakland County Water Authority (NOCWA), which provides joint management of four member community water systems, since 2015. NOCWA began operations with the goal to optimize operational efficiency and contain water service costs by which GLWA wholesale water rates are driven with the maximum day and peak hour values agreed upon in the contract. NOCWA members followed their operational plan and was able to demonstrate that it could achieve a reduced peak hour demand than the original contract value. The GLWA contract was amended and water service cost increases were minimized to achieve greater fiscal value. The City's participation in NOCWA has allowed the City to contain its water service costs and has helped the fund realize operational gains.

The Water and Sewer fund experienced an operational gain in 2018 of \$2.7 million and capital contributions and non-operating activity of \$5.6 million resulting in the increase in total net position of \$8.5 million. The magnitude of private development commitments has helped to support the increase in capital and developer contributions reported at year-end. TIFA-B contributed \$2 million in water main infrastructure and \$3.6 million in developer contributions of both water and sewer main infrastructure and capital and lateral charges.

The water and sewer department has remained diligent in controlling costs in order to preserve reserves for both regular maintenance of infrastructure and any unexpected emergency while minimizing annual rate increases to maintain sufficient reserves for capital repairs, reconstructions, and emergency situations. The City continues to invest water and sewer revenue into additional related infrastructure as indicated by the \$7.5 million increase in the fund's net investment in capital from 2017 to 2018.

Planned increases in water and sewer utility charges also supported the increase in net position for 2018. Water and Sewer Utility charges consider that the City needs to cover not only water and sewer treatment costs and unanticipated emergency repairs, but also operational departmental costs and improvements in infrastructure. Capital improvements performed by the Oakland County Water Resources Commissioner (OCWRC) with respect to the Clinton-Oakland Sanitary Disposal System (COSDS), the Evergreen-Farmington Sanitary Disposal System (EFSDS), the Oakland-Macomb Interceptor Drain (OMID), and the Clinton River Water Resources Recovery (CRWRR) sewage treatment facility, are allocated to the City. Therefore, increases in service costs assist in meeting the ongoing shared CIP infrastructure costs passed on by OCWRC.

The unrestricted net position of Fieldstone Golf Club at year-end is (\$246,200). The Fieldstone Golf Club fund experienced an operating loss of (\$257,677). The golf club, however, has working capital of \$651,000 and is financially stable. The negative net position is due to a financial reporting net pension liability of \$874,000 and a net OPEB liability of \$94,000 reflecting the future costs anticipated for future retiree benefit obligations.

General Fund Budgetary Highlights

The General Fund actual revenue was less than budgeted revenues by \$550,000. While the City did budget for some reimbursement, the reimbursement of certain lost personal property taxes from the State's Local Community Stabilization Authority was \$501,586 under what was anticipated.

The expenses of the General fund were under budget by approximately \$1.3 million. The savings was experienced across departments as efforts of cost containment are continual. About \$466,000 was due to the postponement of costs budgeted for a grant-funded wetland restoration project and general facility repairs. Also, positions continued to go unfilled for periods during 2018 contributing to savings primarily, but not limited to, the public safety area. Actual wage and benefit expenditures were approximately \$506,000 less in 2018 compared to the 2018 amended budget.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for its governmental and business-type activities as of December 31, 2018 is \$134.9 million (net of accumulated depreciation and related debt) and is approximately \$8.2 million more than prior year due to significant capital investment in water/sewer mains and road infrastructure. Other capital investments include office furniture and equipment, machinery and equipment, vehicles, buildings and improvements, and storm drains.

Long-Term Debt- The City has total debt outstanding of \$14.1 million (excluding compensating absences) at December 31, 2018. During the year, the City assumed a pro-rata share of debt related to the Clinton River Water Resource Recovery Facility, totaling \$846,806. While the City has no current plans to issue additional debt, Oakland County's Water Resource Commission, may pass on additional allocated debt at any time. Additional information on the City's long term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

To offset past years of slow growth of tax revenues since the 2007 fiscal year, the City has continually insisted on cost elimination and containment during this period. The City leveraged a favorable borrowing environment in 2017 and issued debt to address the funding of some of the most critical roads and other capital needs in order to ensure it maintained the funds for future legacy costs as well as the undeniable need for continued infrastructure spending. The City has no immediate plan to issue additional debt.

The City's active employee wages, benefits and retirement programs are reviewed annually to ensure that they are both affordable for the City but competitive so as to retain talented, committed staff crucial for providing the level of service and decision-making for which the community has become accustomed.

For fiscal year 2019 and 2020, projections indicate road maintenance and improvements will continue to put the greatest demands on the City's general fund. Longer term projections continue to show expenditure needs exceeding revenue sources. The City has continued to put forth considerable effort to secure funding assistance and collaborative financial agreements from other entities. Unfortunately, state and federal funding is not anticipated to continue to increase over the long term to sufficiently meet either inflationary changes or infrastructure needs.

As the City works to meet its needs and seek alternative funding options, additional increases in tax base will be limited due to its footprint being near full capacity for new growth.

Without a positive vote for additional millage increases, annual tax revenue increases are anticipated to be modest in accordance with allowable inflationary increases (3.1% on 2019 values) held to the limits of the Headlee Amendment and Proposal A. There has been no change in the City's operating millage (since 2005), police millage (since 2003) or fire millage (since 2016).

Below is a chart populated with information from the City's current approved 2019 budget. It is important to note that the 2019 budget will be reviewed and amended later in the 2019 fiscal year and the 2020 projections (as well as years 2021-2024) will be updated.

City of Auburn Hills, Michigan

Management's Discussion and Analysis (Continued)

City of Auburn Hills General Fund		
Description	2019	2020
	BUDGET	PROJECTION
Property Taxes	\$ 17,030,710	\$ 17,719,900
State Shared Revenue and Refunds	3,938,851	3,948,254
Licenses And Permits	940,850	829,150
Grants	299,224	86,324
Charges For Services	1,992,917	2,125,445
Other Revenue	988,406	1,110,355
Interfund Charges	2,723,581	2,768,740
Transfers From Funds	50,000	50,000
Total Revenue	\$ 27,964,539	\$ 28,638,168
Annual Expenditures	\$ 27,081,490	\$ 26,169,519
Transfer to Major Streets	4,770,000	500,000
Transfer to Local Streets	900,000	4,935,000
Transfer to TIFA A		
Transfer to CI Debt Service	561,975	560,575
Total Expenditures	\$ 33,313,465	\$ 32,165,094
Net Revenue Under Expenditures	\$ (5,348,926)	\$ (3,526,926)

Requests for Further Information

This financial report is intended to provide a general overview of the City's finances and demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Treasurer/Finance Department at 1827 N. Squirrel Road, Auburn Hills, Michigan 48326. This report, City budgets, and other financial information are available on the City's website at www.auburnhills.org.

Statement of Net Position

December 31, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 43,420,562	\$ 30,094,574	\$ 73,515,136	\$ 18,790,593
Receivables (Note 4)	16,235,787	3,564,261	19,800,048	1,314,186
Internal balances	(1,745,727)	1,745,727	-	-
Inventory	-	176,785	176,785	-
Prepaid expenses and other assets	25,590	-	25,590	277,189
Restricted assets (Note 5)	1,181,620	1,133,861	2,315,481	-
Land held for resale	1,092,197	-	1,092,197	-
Capital assets: (Note 7)				
Assets not subject to depreciation	8,590,154	11,987,928	20,578,082	9,374,375
Assets subject to depreciation - Net	62,349,004	65,198,540	127,547,544	47,676,810
Total assets	131,149,187	113,901,676	245,050,863	77,433,153
Deferred Outflows of Resources (Note 6)	3,116,561	263,099	3,379,660	-
Liabilities				
Accounts payable	819,746	1,963,251	2,782,997	459,178
Due to other governmental units	615,447	589,560	1,205,007	-
Refundable deposits and bonds	1,664,178	866,895	2,531,073	-
Accrued liabilities and other	718,865	47,082	765,947	910
Provision for property tax refunds	52,710	-	52,710	11,608
Noncurrent liabilities:				
Due within one year:				
Payable from restricted assets	626,210	-	626,210	-
Compensated absences (Note 8)	228,361	-	228,361	-
Current portion of bonds payable (Note 8)	600,000	341,488	941,488	-
Due in more than one year:				
Compensated absences (Note 8)	1,356,324	104,362	1,460,686	-
Net pension liability (Note 12)	19,743,732	1,687,427	21,431,159	-
Net OPEB obligation (Note 13)	15,763,146	1,310,796	17,073,942	-
Bonds payable - Net of current portion (Note 8)	8,352,473	4,798,803	13,151,276	572,750
Total liabilities	50,541,192	11,709,664	62,250,856	1,044,446
Deferred Inflows of Resources (Note 6)	16,513,892	-	16,513,892	1,662,502
Net Position				
Net investment in capital assets	62,512,095	72,403,428	134,915,523	57,051,185
Restricted:				
Amphitheatre, splash pad, and other donations	30,000	-	30,000	569,739
Tree ordinance	609,631	-	609,631	-
Major and local roads	754,627	-	754,627	-
Metro Act	324,953	-	324,953	-
Police grants and forfeitures	114,436	-	114,436	-
Community development block grant	18,840	-	18,840	-
NOCWA	-	776,610	776,610	-
Debt service	1,553,942	-	1,553,942	-
Unrestricted	1,292,140	29,275,073	30,567,213	17,105,281
Total net position	<u>\$ 67,210,664</u>	<u>\$ 102,455,111</u>	<u>\$ 169,665,775</u>	<u>\$ 74,726,205</u>

City of Auburn Hills, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,006,718	\$ 392,497	\$ -	\$ -
Public safety	12,974,420	2,926,450	575,296	-
Public works	7,788,123	496,772	2,474,697	1,570,375
Health, welfare, and community development	731,321	402,128	119,242	-
Recreation and culture	1,105,198	163,933	19,630	37,125
Interest on long-term debt	242,255	-	-	-
Total governmental activities	27,848,035	4,381,780	3,188,865	1,607,500
Business-type activities:				
Water & Sewer Fund	15,660,024	18,812,973	44,307	5,556,352
Fieldstone Golf Club	1,642,892	1,385,215	-	-
Total business-type activities	17,302,916	20,198,188	44,307	5,556,352
Total primary government	<u>\$ 45,150,951</u>	<u>\$ 24,579,968</u>	<u>\$ 3,233,172</u>	<u>\$ 7,163,852</u>
Component units:				
TIFA A	\$ 1,510,757	\$ 53,691	\$ -	\$ 569,739
TIFA B	2,835,024	501	-	-
TIFA D	1,132,290	1,028	-	-
Brownfield Authority	513,479	-	-	-
Economic Development Authority	232	-	-	-
Downtown Development Authority	25,366	-	-	-
Total component units	<u>\$ 6,017,148</u>	<u>\$ 55,220</u>	<u>\$ -</u>	<u>\$ 569,739</u>
General revenue:				
Taxes - Property				
Unrestricted state-shared revenue				
Unrestricted investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Transfers				
Change in Net Position				
Net Position - Beginning of year - As restated (Note 17)				
Net Position - End of year				

Statement of Activities

Year Ended December 31, 2018

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,614,221)	\$ -	\$ (4,614,221)	\$ -
(9,472,674)	-	(9,472,674)	-
(3,246,279)	-	(3,246,279)	-
(209,951)	-	(209,951)	-
(884,510)	-	(884,510)	-
(242,255)	-	(242,255)	-
(18,669,890)	-	(18,669,890)	-
-	8,753,608	8,753,608	-
-	(257,677)	(257,677)	-
-	8,495,931	8,495,931	-
(18,669,890)	8,495,931	(10,173,959)	-
-	-	-	(887,327)
-	-	-	(2,834,523)
-	-	-	(1,131,262)
-	-	-	(513,479)
-	-	-	(232)
-	-	-	(25,366)
-	-	-	(5,392,189)
16,409,024	-	16,409,024	2,294,691
3,562,761	-	3,562,761	1,054,638
472,165	339,722	811,887	212,696
391,002	-	391,002	-
1,096,280	-	1,096,280	-
21,931,232	339,722	22,270,954	3,562,025
50,000	(50,000)	-	-
3,311,342	8,785,653	12,096,995	(1,830,164)
63,899,322	93,669,458	157,568,780	76,556,369
\$ 67,210,664	\$ 102,455,111	\$ 169,665,775	\$ 74,726,205

City of Auburn Hills, Michigan

Governmental Funds Balance Sheet

December 31, 2018

	General Fund	Major and Local Streets Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 34,212,463	\$ 2,268,909	\$ -	\$ 2,083,640	\$ 38,565,012
Receivables:					
Property taxes receivable	11,953,538	-	-	-	11,953,538
Special assessments receivable	69,943	-	-	1,311,438	1,381,381
Customer receivables	600,008	-	-	-	600,008
Other receivables	30,779	716	-	-	31,495
Due from other governments	1,822,385	414,676	-	31,304	2,268,365
Due from other funds	9,093	-	-	-	9,093
Prepaid expenses and other assets	22,484	-	-	-	22,484
Restricted assets	-	-	1,151,620	-	1,151,620
Land held for resale	1,092,197	-	-	-	1,092,197
Total assets	\$ 49,812,890	\$ 2,684,301	\$ 1,151,620	\$ 3,426,382	\$ 57,075,193
Liabilities					
Accounts payable	\$ 501,329	\$ 252,951	\$ -	\$ 31,875	\$ 786,155
Due to other governmental units	-	615,447	-	-	615,447
Due to other funds	24,941	1,782	-	9,093	35,816
Refundable deposits and bonds	328,915	1,043,253	-	292,010	1,664,178
Accrued liabilities and other	673,622	16,241	222	-	690,085
Provision for property tax refunds	52,710	-	-	-	52,710
Payable from restricted assets	-	-	626,210	-	626,210
Total liabilities	1,581,517	1,929,674	626,432	332,978	4,470,601
Deferred Inflows of Resources (Note 6)					
Unavailable revenue	463,543	-	-	1,301,141	1,764,684
Property taxes levied for the following year	16,513,892	-	-	-	16,513,892
Total deferred inflows of resources	16,977,435	-	-	1,301,141	18,278,576
Fund Balances					
Nonspendable:					
Land held for resale	1,092,197	-	-	-	1,092,197
Prepays	22,484	-	-	-	22,484
Restricted:					
Roads	-	754,627	-	-	754,627
Police grants and forfeitures	-	-	-	114,436	114,436
Debt service	-	-	-	252,801	252,801
Metro act	-	-	-	324,953	324,953
Capital projects	-	-	525,188	-	525,188
Tree ordinance	-	-	-	609,631	609,631
Community development block grant	-	-	-	18,840	18,840
Committed:					
Storm management	73,563	-	-	-	73,563
Wayne disposal	-	-	-	471,602	471,602
Assigned:					
Subsequent year's budget	5,348,926	-	-	-	5,348,926
Pension contribution	2,000,000	-	-	-	2,000,000
OPEB contribution	3,000,000	-	-	-	3,000,000
Roads contribution	5,435,000	-	-	-	5,435,000
Hawkwood Lodge capital project	150,000	-	-	-	150,000
Unassigned	14,131,768	-	-	-	14,131,768
Total fund balances	31,253,938	754,627	525,188	1,792,263	34,326,016
Total liabilities, deferred inflows of resources, and fund balances	\$ 49,812,890	\$ 2,684,301	\$ 1,151,620	\$ 3,426,382	\$ 57,075,193

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2018

Fund Balances Reported in Governmental Funds	\$ 34,326,016
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	68,501,897
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	1,764,684
Restricted assets held by outside entities are not financial resources and are not reported in the funds	30,000
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(8,952,473)
Accrued interest is not due and payable in the current period and is not reported in the funds	(23,077)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(1,567,339)
Pension benefits	(18,040,226)
Retiree healthcare benefits	<u>(14,207,819)</u>
Total employee fringe benefits not reported as fund liabilities	(33,815,384)
Internal service funds are included as part of governmental activities	<u>5,379,001</u>
Net Position of Governmental Activities	<u>\$ 67,210,664</u>

City of Auburn Hills, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2018

	General Fund	Major and Local Streets Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 16,409,024	\$ -	\$ -	\$ -	\$ 16,409,024
Special assessments	83,314	-	-	175,964	259,278
Intergovernmental:					
Federal grants	563,712	-	-	57,871	621,583
State sources:					
State-shared revenue	2,019,748	-	-	72,599	2,092,347
Act 51 gas and weight tax	-	2,071,734	-	-	2,071,734
Local Community Stabilization Authority	1,470,414	-	-	-	1,470,414
State grants	39,657	449,897	-	-	489,554
Charges for services:					
Construction code fees	1,685,654	-	-	-	1,685,654
Charges to other funds	2,637,001	-	-	-	2,637,001
User fees	563,433	-	-	496,772	1,060,205
Service charge	1,108,927	-	-	-	1,108,927
Fines and forfeitures	348,978	-	-	41,818	390,796
Licenses and permits	515,306	-	-	-	515,306
Investment income	381,436	6	71,541	19,182	472,165
Other revenue:					
Donations	622,667	-	-	-	622,667
Other miscellaneous income	1,037,580	13,875	-	-	1,051,455
Total revenue	29,486,851	2,535,512	71,541	864,206	32,958,110
Expenditures					
Current services:					
General government	9,337,792	-	-	-	9,337,792
Public safety	13,435,539	-	-	37,061	13,472,600
Public works	694,735	4,265,342	4,307,240	306,601	9,573,918
Community and economic development	726,978	-	-	61,242	788,220
Recreation and culture	1,119,592	-	-	-	1,119,592
Debt service:					
Principal	50,000	-	-	570,000	620,000
Interest and fiscal charges	18,191	-	-	251,489	269,680
Total expenditures	25,382,827	4,265,342	4,307,240	1,226,393	35,181,802
Excess of Revenue Over (Under) Expenditures	4,104,024	(1,729,830)	(4,235,699)	(362,187)	(2,223,692)
Other Financing Sources (Uses)					
Transfers in	50,000	1,380,000	-	660,865	2,090,865
Transfers out	(1,860,865)	-	-	(180,000)	(2,040,865)
Total other financing (uses) sources	(1,810,865)	1,380,000	-	480,865	50,000
Net Change in Fund Balances	2,293,159	(349,830)	(4,235,699)	118,678	(2,173,692)
Fund Balances - Beginning of year	28,960,779	1,104,457	4,760,887	1,673,585	36,499,708
Fund Balances - End of year	<u>\$ 31,253,938</u>	<u>\$ 754,627</u>	<u>\$ 525,188</u>	<u>\$ 1,792,263</u>	<u>\$ 34,326,016</u>

See notes to financial statements.

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended December 31, 2018

Net Change in Fund Balances Reported in Governmental Funds **\$ (2,173,692)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	7,806,626
Depreciation expense	(3,244,313)
Net book value of assets disposed of	(19,136)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(169,010)
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Donations held by other governments are recorded in the statement of activities when earned; they are not reported in the funds until received	(532,614)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	642,569
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Interest expense is recognized in the government-wide statements as it accrues	4,856
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Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	588,052
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Internal service funds are included as part of governmental activities	408,004
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Change in Net Position of Governmental Activities **\$ 3,311,342**

Proprietary Funds Statement of Net Position

December 31, 2018

	Enterprise Funds			Governmental Activities
	Water & Sewer Fund	Fieldstone Golf Club Fund	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and investments	\$ 29,444,341	\$ 650,233	\$ 30,094,574	\$ 4,855,550
Receivables - Customers	3,564,261	-	3,564,261	1,000
Due from other funds	-	-	-	29,217
Inventory	156,282	20,503	176,785	-
Prepaid expenses and other assets	-	-	-	3,106
Total current assets	33,164,884	670,736	33,835,620	4,888,873
Noncurrent assets:				
Restricted assets (Note 5)	1,133,861	-	1,133,861	-
Capital assets: (Note 7)				
Assets not subject to depreciation	3,665,485	8,322,443	11,987,928	-
Assets subject to depreciation - Net	62,168,369	3,030,171	65,198,540	2,437,261
Total noncurrent assets	66,967,715	11,352,614	78,320,329	2,437,261
Total assets	100,132,599	12,023,350	112,155,949	7,326,134
Deferred Outflows of Resources - Deferred pension costs	179,267	83,832	263,099	14,010
Liabilities				
Current liabilities:				
Accounts payable	1,952,623	10,628	1,963,251	33,591
Due to other governmental units	583,614	5,946	589,560	-
Due to other funds	2,138	356	2,494	-
Refundable deposits and bonds	866,895	-	866,895	-
Accrued liabilities and other	44,250	2,832	47,082	5,703
Current portion of bonds payable (Note 8)	341,488	-	341,488	-
Total current liabilities	3,791,008	19,762	3,810,770	39,294
Noncurrent liabilities:				
Compensated absences (Note 8)	91,264	13,098	104,362	17,346
Net pension liability (Note 12)	813,873	873,554	1,687,427	-
Net OPEB obligation	1,216,442	94,354	1,310,796	156,282
Bonds payable - Net of current portion (Note 8)	4,798,803	-	4,798,803	-
Total noncurrent liabilities	6,920,382	981,006	7,901,388	173,628
Total liabilities	10,711,390	1,000,768	11,712,158	212,922
Net Position				
Net investment in capital assets	61,050,814	11,352,614	72,403,428	2,437,261
Restricted - NOCWA	776,610	-	776,610	-
Unrestricted	27,773,052	(246,200)	27,526,852	4,689,961
Total net position	\$ 89,600,476	\$ 11,106,414	100,706,890	\$ 7,127,222
Amounts reported for business-type activities in the statement of net position are different because a portion of the internal service funds is included as business-type activities			1,748,221	
Total Net Position			\$ 102,455,111	

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2018

	Enterprise Funds			Governmental Activities
	Water & Sewer Fund	Fieldstone Golf Club Fund	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Sale of water	\$ 9,894,316	\$ -	\$ 9,894,316	\$ -
Sewage disposal charges	8,008,515	-	8,008,515	-
Hydrant and equipment rental	129,070	-	129,070	-
Interest and penalty charges	441,252	-	441,252	-
Merchandise sales	-	126,349	126,349	-
Greens fees	-	1,119,130	1,119,130	-
Practice range fees	-	74,486	74,486	-
Other operating income	339,820	65,250	405,070	1,825
Charges to other funds	-	-	-	5,548,342
Total operating revenue	18,812,973	1,385,215	20,198,188	5,550,167
Operating Expenses				
Cost of water	4,739,549	-	4,739,549	-
Cost of sewage treatment	5,412,087	-	5,412,087	-
Administrative charges	2,118,395	146,998	2,265,393	-
Supplies	266,543	335,042	601,585	460,152
Contracted services	65,596	534,725	600,321	161,772
Salaries and wages	615,072	235,669	850,741	116,380
Fringe benefits	520,041	104,090	624,131	2,380,564
Other operating expenses	133,753	-	133,753	451,637
Depreciation	2,248,956	286,368	2,535,324	1,117,150
Total operating expenses	16,119,992	1,642,892	17,762,884	4,687,655
Operating Income (Loss)	2,692,981	(257,677)	2,435,304	862,512
Nonoperating Revenue (Expense)				
Investment income	339,722	-	339,722	47,343
Interest expense	(104,317)	-	(104,317)	-
Gain on sale of assets	-	-	-	62,434
State grants	44,307	-	44,307	-
Total nonoperating revenue	279,712	-	279,712	109,777
Income (Loss) - Before capital contributions	2,972,693	(257,677)	2,715,016	972,289
Capital Contributions				
Capital and lateral charges	1,266,244	-	1,266,244	-
Developer contributions	4,290,108	-	4,290,108	-
Total capital contributions	5,556,352	-	5,556,352	-
Transfers Out	-	(50,000)	(50,000)	-
Change in Net Position	8,529,045	(307,677)	8,221,368	972,289
Net Position - Beginning of year - As restated (Note 17)	81,071,431	11,414,091	92,485,522	6,154,933
Net Position - End of year	\$ 89,600,476	\$ 11,106,414	\$ 100,706,890	\$ 7,127,222
Net Change in Net Position - Total enterprise funds			\$ 8,221,368	
Amounts reported for business-type activities in the statement of activities are different because a portion of the internal service funds is included as business-type activities			564,285	
Change in Net Position of Business-type Activities			\$ 8,785,653	

Proprietary Funds
Statement of Cash Flows

Year Ended December 31, 2018

	Enterprise Funds			Governmental Activities
	Water & Sewer Fund	Fieldstone Golf Club Fund	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 18,519,521	\$ 1,330,572	\$ 19,850,093	\$ -
Receipts from interfund services and reimbursements	-	-	-	5,548,859
Payments to suppliers	(9,388,862)	(814,280)	(10,203,142)	(734,572)
Payments to employees and fringes	(955,723)	(343,364)	(1,299,087)	(2,534,467)
Payments to other funds	(2,118,356)	(146,992)	(2,265,348)	(335,813)
Other receipts	58,074	54,643	112,717	825
Net cash provided by operating activities	6,114,654	80,579	6,195,233	1,944,832
Cash Flows from Noncapital Financing Activities				
State grants	44,307	-	44,307	-
Transfers to other funds	-	(50,000)	(50,000)	-
Net cash provided by (used in) noncapital financing activities	44,307	(50,000)	(5,693)	-
Cash Flows from Capital and Related Financing Activities				
Proceeds from sale of capital assets	-	-	-	62,434
Purchase of capital assets	(5,182,422)	(55,742)	(5,238,164)	(1,707,897)
Principal and interest paid on capital debt	(346,268)	-	(346,268)	-
Capital and lateral charges	1,266,244	-	1,266,244	-
Net cash used in capital and related financing activities	(4,262,446)	(55,742)	(4,318,188)	(1,645,463)
Cash Flows Provided by Investing Activities -				
Interest received on investments	339,722	-	339,722	47,343
Net Increase (Decrease) in Cash	2,236,237	(25,163)	2,211,074	346,712
Cash - Beginning of year	27,208,104	675,396	27,883,500	4,508,838
Cash - End of year	\$ 29,444,341	\$ 650,233	\$ 30,094,574	\$ 4,855,550
Classification of Cash - Cash and investments	\$ 29,444,341	\$ 650,233	\$ 30,094,574	\$ 4,855,550

Proprietary Funds
Statement of Cash Flows (Continued)

Year Ended December 31, 2018

	Enterprise Funds			Governmental Activities
	Water & Sewer Fund	Fieldstone Golf Club Fund	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 2,692,981	\$ (257,677)	\$ 2,435,304	\$ 862,512
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	2,248,956	286,368	2,535,324	1,117,150
Changes in assets and liabilities:				
Receivables	(235,378)	-	(235,378)	(1,000)
Due to and from other funds	39	6	45	517
Inventories	26,738	50,274	77,012	-
Prepaid and other assets	-	-	-	(989)
Accounts payable	1,201,928	5,213	1,207,141	4,165
Net pension or OPEB liability	398,216	148,041	546,257	(16,446)
Deferrals related to pension or OPEB	(224,780)	(133,271)	(358,051)	(14,010)
Accrued and other liabilities	5,954	(18,375)	(12,421)	(7,067)
Total adjustments	3,421,673	338,256	3,759,929	1,082,320
Net cash provided by operating activities	<u><u>\$ 6,114,654</u></u>	<u><u>\$ 80,579</u></u>	<u><u>\$ 6,195,233</u></u>	<u><u>\$ 1,944,832</u></u>

During 2018, developers contributed \$1,621,959 of water mains and \$602,141 of sewer mains to the Water & Sewer Fund, and TIFA B contributed \$2,066,008 to the Water & Sewer Fund for maintenance and sewer work completed on Opdyke Road. In addition, on behalf of the City, Oakland County, Michigan constructed the Clinton River Water Resource Recovery Facility Drainage District, for which it incurred additional long-term debt of \$846,806.

Fiduciary Funds
Statement of Fiduciary Net Position

December 31, 2018

	Pension and Other Postemployment Benefits Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 3,275,376	\$ 3,624,047
Investments:		
Mutual funds - Fixed income	4,149,212	-
Mutual funds - Equity	11,391,192	-
Multistrategy hedge funds	5,272,948	-
Commingled funds	25,634,478	-
Common stock	5,767,780	-
Foreign stock	397,602	-
Real estate	11,085,539	-
Receivables	229,873	-
	<u>67,204,000</u>	<u>\$ 3,624,047</u>
Total assets		
	67,204,000	\$ 3,624,047
Liabilities - Undistributed tax collections	<u>-</u>	<u>\$ 3,624,047</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 67,204,000</u>	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2018

	<u>Pension and Other Postemployment Benefits Funds</u>
Additions	
Investment income (loss):	
Interest and dividends	\$ 954,806
Net decrease in fair value of investments	(2,237,815)
Investment-related expenses	<u>(226,558)</u>
Total investment loss	(1,509,567)
Contributions:	
Employer contributions	3,119,849
Employee contributions	<u>115,417</u>
Total contributions	<u>3,235,266</u>
Total additions	1,725,699
Deductions	
Benefit payments	3,593,596
Medical premiums/expenses	<u>1,354,238</u>
Total deductions	<u>4,947,834</u>
Net Decrease in Net Position Held in Trust	(3,222,135)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>70,426,135</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 67,204,000</u>

Component Units
Statement of Net Position

December 31, 2018

	TIFA A	TIFA B	TIFA D	Brownfield Authority	Economic Development Authority	Downtown Development Authority	Total
Assets							
Cash and investments	\$ 3,048,776	\$ 8,270,005	\$ 2,653,318	\$ 4,598,970	\$ 9,451	\$ 210,073	\$ 18,790,593
Receivables:							
Property taxes receivable	476,732	566,718	-	70,339	-	70,530	1,184,319
Other receivables	-	501	-	129,366	-	-	129,867
Prepaid expenses and other assets	277,189	-	-	-	-	-	277,189
Capital assets:							
Assets not subject to depreciation	7,014,532	342,632	2,017,211	-	-	-	9,374,375
Assets subject to depreciation - Net	17,271,291	8,211,269	22,194,250	-	-	-	47,676,810
Total assets	28,088,520	17,391,125	26,864,779	4,798,675	9,451	280,603	77,433,153
Liabilities							
Accounts payable	366,215	41,362	19,269	32,268	-	64	459,178
Accrued liabilities and other - Accrued salaries and wages	910	-	-	-	-	-	910
Provision for property tax refunds	-	1,626	3,000	4,558	-	2,424	11,608
Noncurrent liabilities - Long- term debt	-	-	-	572,750	-	-	572,750
Total liabilities	367,125	42,988	22,269	609,576	-	2,488	1,044,446
Deferred Inflows of Resources -							
Property taxes levied for subsequent year	603,604	850,976	-	103,806	-	104,116	1,662,502
Net Position							
Net investment in capital assets	24,285,823	8,553,901	24,211,461	-	-	-	57,051,185
Restricted - Amphitheatre and splash pad project donations	569,739	-	-	-	-	-	569,739
Unrestricted	2,262,229	7,943,260	2,631,049	4,085,293	9,451	173,999	17,105,281
Total net position	<u>\$ 27,117,791</u>	<u>\$ 16,497,161</u>	<u>\$ 26,842,510</u>	<u>\$ 4,085,293</u>	<u>\$ 9,451</u>	<u>\$ 173,999</u>	<u>\$ 74,726,205</u>

City of Auburn Hills, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
TIFA A	\$ 1,510,757	\$ 53,691	\$ -	\$ 569,739
TIFA B	2,835,024	501	-	-
TIFA D	1,132,290	1,028	-	-
Brownfield Authority	513,479	-	-	-
Economic Development Authority	232	-	-	-
Downtown Development Authority	25,366	-	-	-
Total	\$ 6,017,148	\$ 55,220	\$ -	\$ 569,739

General revenue:

Taxes - Property

Unrestricted state-shared revenue

Unrestricted investment income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Component Units
Statement of Activities

Year Ended December 31, 2018

Net (Expense) Revenue and Changes in Net Position						
TIFA A	TIFA B	TIFA D	Brownfield Authority	Economic Development Authority	Downtown Development Authority	Total
\$ (887,327)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (887,327)
-	(2,834,523)	-	-	-	-	(2,834,523)
-	-	(1,131,262)	-	-	-	(1,131,262)
-	-	-	(513,479)	-	-	(513,479)
-	-	-	-	(232)	-	(232)
-	-	-	-	-	(25,366)	(25,366)
(887,327)	(2,834,523)	(1,131,262)	(513,479)	(232)	(25,366)	(5,392,189)
858,780	1,166,464	16	153,057	-	116,374	2,294,691
206,152	167,101	666,523	14,862	-	-	1,054,638
22,194	99,332	21,121	70,049	-	-	212,696
1,087,126	1,432,897	687,660	237,968	-	116,374	3,562,025
199,799	(1,401,626)	(443,602)	(275,511)	(232)	91,008	(1,830,164)
26,917,992	17,898,787	27,286,112	4,360,804	9,683	82,991	76,556,369
\$ 27,117,791	\$ 16,497,161	\$ 26,842,510	\$ 4,085,293	\$ 9,451	\$ 173,999	\$ 74,726,205

December 31, 2018

Note 1 - Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Auburn Hills, Michigan (the "City"):

Reporting Entity

The City of Auburn Hills, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the City's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the City. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Unit

The Building Authority is governed by a five-member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units

Tax Increment Finance Authorities (TIFA)

The TIFAs are governed by a nine-member board. The board is appointed by the mayor and confirmed by the City Council. The City can significantly influence the operations of the TIFA board, as the City Council approves the TIFA budgets. The TIFAs were created to finance infrastructure improvements within certain boundaries of the City.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority is governed by a five-member board. The board is appointed by the mayor and confirmed by the City Council. The City can significantly influence the operations of the Brownfield Redevelopment Authority board, as the City Council approves the Brownfield Redevelopment Authority budget. The five-member board is composed of one member of the City Council and four citizens at-large. The Brownfield Redevelopment Authority was created to provide a means for financing remediation of Brownfield (environmentally contaminated) sites within the City.

Economic Development Corporation (EDC)

The EDC is governed by a nine-member board. This board is appointed by the mayor and confirmed by the City Council. The City can significantly influence the operations of the EDC, as the City Council approves the EDC budget. The EDC was created to provide a means and method for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises.

Downtown Development Authority (DDA)

The Downtown Development Authority is governed by a nine-member board. This board is appointed by the mayor and confirmed by the City Council. The City can significantly influence the operations of the DDA, as the City Council approves the DDA budget. The DDA was created to provide a means and method for the encouragement of development in the downtown district of the City.

Although no separate financial statements are prepared for the component units, all financial information can be obtained from the City's finance department.

Note 1 - Significant Accounting Policies (Continued)

Accounting and Reporting Principles

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

Report Presentation

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

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

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule occur when there are charges between the City's water and sewer function and various other functions. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

Fund Accounting

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

Governmental Funds

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Major and Local Streets Fund, which is used to account for funds received from the State of Michigan in accordance with the provisions of Act 51 of 1951 to be used for major and local road maintenance. The fund is also supported by transfers from the General Fund to meet the City's major and local road maintenance needs.

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

- The Capital Projects Fund is used to account for bond proceeds and funds spent on road and traffic improvements.

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

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- Debt service funds are used to record special assessment revenue and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Proprietary Funds

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

- The Water & Sewer Fund provides water to customers and disposes of sanitary sewage for residents and commercial enterprises of the City on a user charge basis.
- The Fieldstone Golf Club Fund is used to account for the operations of the City's municipal golf course. This fund is funded primarily through user fees charged to individuals using these facilities.

The City's internal service funds are used to record the financing of services provided by the City to other departments and funds on a cost reimbursement basis. The internal service funds are accounted for on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

Fiduciary Funds

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

- The Pension Trust Fund, which accumulates resources for pension benefit payments to retirees
- The Retiree Health Care Trust Fund, which accumulates resources for future retiree healthcare payments to retirees
- The Agency Fund, which is used to account for assets held by the City as an agent for other governments of other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Interfund Activity

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

December 31, 2018**Note 1 - Significant Accounting Policies (Continued)**

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

Basis of Accounting

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

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

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow." In addition, property taxes collected in December of the current year are available; however, those taxes were levied for the following year's budget; therefore, this revenue has also been shown as a deferred inflow.

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

Specific Balances and Transactions**Cash and Investments**

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

Investments 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 based on the City's share of the audited net asset values of the investment.

The pension and OPEB trust include investments valued at approximately \$32.8 million (approximately 67 percent of pension assets) and approximately \$7.9 million (approximately 43 percent of OPEB assets), respectively, whose fair values are not publicly traded and, therefore, do not always have a readily determinable market value at year end. Management's estimates of these values are based on the City's share of NAV of the related investment company. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the values that would have been used had a ready market for these existed. The difference could be material.

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)**Inventories and Prepaid Items**

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

Restricted Assets

Assets have been restricted in the primary government, as they represent assets held by the Auburn Hills Community Foundation; Oakland County, Michigan; and North Oakland County Water Authority to be applied against future payment obligations of the City. See Note 5 for additional discussion.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The City adopted a dollar cost threshold of \$169,665,775 for capital asset classes pertaining to water/sewer infrastructure/mains, buildings, and roads. The threshold for all other capital asset classes is \$5,000. All capital asset classes must have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City uses a full year of depreciation in the first year of service. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

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

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

	Depreciable Life - Years
Water and sewer mains	50
Vehicles	3-5
Officer furniture and equipment	3-5
Machinery and equipment	5
Buildings and improvements	30-35
Roads	40
Storm drains	50

Long-term Obligations

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The City reports the following deferred outflows of resources and deferred inflows of resources:

	Outflows	Inflows
Unavailable revenue (those not collected within the period of availability) - Reported only at the modified accrual level		✓
Deferred pension costs (or cost reductions)	✓	
Deferred OPEB costs (or cost reductions)	✓	
Property taxes levied for the following year		✓

Net Position

Net position of the City is classified in three components. Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable, where applicable. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider unrestricted fund balance to have been depleted before using any of the components of restricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

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

Property Tax Revenue

Property taxes are levied on each December 1 and become an enforceable lien at that time; the tax is based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2018 property tax revenue was levied and collectible on December 1, 2018 and is recognized as revenue in the year ending December 31, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the City totaled \$1,418 million (ad valorem only). A portion of the City's taxable value is abated, and a portion is captured by the TIFAs, Brownfield Development Authority, and DDA. These authorities have tax levies both on the December and July property tax bills. The 2018 taxable valuation, which was levied on July 1 and recognized in the current year, totaled \$114.9 million captured by the TIFAs, \$7.5 million captured by the Brownfield Development Authority, and \$8.6 million taxable value captured by the DDA. Dollars of taxes were recognized as revenue as follows (excludes penalties, interest, and administrative fees):

Purpose	Millage Rate	Revenue
General operating	2.1100 \$	3,835,000
Fire department	2.5000	3,689,000
Police department	5.9857	8,833,000
Captured property taxes		2,295,000
Total		\$ 18,652,000

Pension

The City offers a defined benefit pension plan to its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability has historically been liquidated from the funds from which the individual salaries are paid, which are the General Fund, Water & Sewer Fund, and Fieldstone Golf Club Fund.

December 31, 2018**Note 1 - Significant Accounting Policies (Continued)****Other Postemployment Benefit Costs**

The City offers retiree healthcare benefits to retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The net OPEB liability has generally been liquidated from the funds from which the individual salaries are paid, which are the General Fund, Water & Sewer Fund, Fieldstone Golf Club Fund, and Fleet Management Fund.

Compensated Absences (Leave Time)

City employees are granted leave time in varying amounts based on length of service. Leave time is accrued and fully vested when earned; upon termination, employees are paid accumulated vacation at full rates to a limit of their maximum accrual, which varies by bargaining unit.

All leave time is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences are reported in the government-wide financial statements; generally the funds that report each employee's compensation (the General Fund and Water & Sewer Fund, primarily) are used to liquidate obligations.

Proprietary Funds Operating Classification

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

Use of Estimates

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

Upcoming Accounting Pronouncements

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

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2020.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the City's financial statements for the December 31, 2020 fiscal year.

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the year ending December 31, 2019.

December 31, 2018

Note 2 - Stewardship, Compliance, and Accountability**Construction Code Fees**

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

Shortfall at January 1, 2018		\$	(2,398,877)
Current year permit revenue			1,685,654
Related expenses:			
Direct costs	\$	1,069,920	
Estimated indirect costs		50,620	1,120,540
Current year surplus			565,114
Cumulative shortfall December 31, 2018		\$	(1,833,763)

Note 3 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
Cash and investments	\$ 43,420,562	\$ 30,094,574	\$ 70,598,174	\$ 18,790,593
Restricted cash	1,151,620	-	-	-
Total deposits and investments	<u>\$ 44,572,182</u>	<u>\$ 30,094,574</u>	<u>\$ 70,598,174</u>	<u>\$ 18,790,593</u>

These amounts are classified into the following deposits and investment categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
Deposits	\$ 17,998,665	\$ 11,283,743	\$ 3,641,979	\$ 6,267,922
Investments:				
Oakland County - LGIP	3,496,674	1,456,170	-	417,408
Michigan CLASS	7,053,067	3,495,742	-	513,969
Investment managers	16,023,776	13,858,919	66,956,195	11,591,294
Total	<u>\$ 44,572,182</u>	<u>\$ 30,094,574</u>	<u>\$ 70,598,174</u>	<u>\$ 18,790,593</u>

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

December 31, 2018**Note 3 - Deposits and Investments (Continued)**

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

The City adopted Public Act 149 of 1999, which allows the City to invest retiree healthcare funds in more diversified investment asset classes, as allowed under Michigan Public Act 314 of 1965, as amended.

The City has designated five banks 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 bonds and securities of the United States government, bank accounts, CDs, commercial paper, and municipal bonds. The City's deposits and investment policies are in accordance with statutory authority. The City's treasurer periodically submits recommendations for approved depository banks and credit unions to the City Council. The recommendations are based on external rating services and recommendations by the City's external cash fund managers. Additionally, the City participates in the Oakland County Local Government Investment Pool and the Michigan CLASS investment pool. The investment pools are not subject to regulatory oversight, are not registered with the SEC, and do not issue a separate financial report. The fair value of the position in the pools is the same as the value of the pool shares.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy restricts depository accounts to federally insured institutions located within the state of Michigan (consistent with state law). At year end, the City had \$37,949,755 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The uninsured and uncollateralized amount includes \$7,942,619 of a fiduciary trust fund and \$9,539 of component unit deposits. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City contracts one investment manager to manage a portion of the City's surplus operating cash. The funds placed under the investment manager represent commingled funds of the primary government, component unit funds, and an internal service fund. Investments held by the investment manager at December 31, 2018 by the custodial bank include U.S. Treasuries of \$15,109,660, U.S. agency securities of \$25,268,320, and commercial paper of \$1,096,009. The investments held by the investment managers include \$11,591,294 of component unit investments.

As noted above, the City participates in the Oakland County Local Government Investment Pool and the Michigan CLASS investment pool. As of December 31, 2018, the City's investment in the Oakland County Local Government Investment Pool was \$5,370,252, which includes \$417,408 of component unit investments. As of December 31, 2018, the City's investment in the Michigan CLASS investment pool was \$11,062,778, which includes \$513,969 of component unit investments.

In addition to the governmental fund bank deposits noted above, the City had cash and investments held in trust by a custodial bank as a part of the City's Pension Trust and Retiree Health Care Trust program. The fund's cash and investments stated at market value were \$48,707,092 and \$18,437,180 in the Pension Trust and Retiree Health Care Trust, respectively, as of December 31, 2018.

December 31, 2018

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts the average maturity of investments to two years, with the exception of long-term debt or capital fund investments, which may be invested in securities matched to cash flow requirements with a maximum of five years. The City's pension and retiree healthcare investment policies restrict cash equivalents to a dollar-weighted average maturity of 90 days or less.

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

Primary Government (includes component unit investments)	Carrying Value	Less than One Year	One to Three Years
U.S. government agency	\$ 25,268,320	\$ 12,438,513	\$ 12,829,807
Commercial paper	1,096,009	1,096,009	-
U.S. Treasuries	15,109,660	5,548,582	9,561,078
Oakland County - Investment pool	5,370,252	-	5,370,252
Michigan CLASS - Investment pool	11,062,778	11,062,778	-
Total	<u>\$ 57,907,019</u>	<u>\$ 30,145,882</u>	<u>\$ 27,761,137</u>

Fiduciary Funds	Carrying Value	One to Five Years
Mutual funds - Fixed income	\$ 4,149,212	\$ 4,149,212
Commingled funds - Fixed income	11,572,901	11,572,901
Total	<u>\$ 15,722,113</u>	<u>\$ 15,722,113</u>

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's general investment policy also limits investments to: commercial paper to the highest rating (A-I/P-I); bankers' acceptances whose long-term debt rating is at least an A; obligations of the State or its political subdivisions to the highest rating (A-I/P-I); or pooled funds with a rating of at least an A. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary Government (Includes Component Unit Investments)			
U.S. government agency	\$ 25,268,320	AA+	S&P
Commercial paper	1,096,009	A-1	S&P
U.S. Treasuries	15,109,660	AA+	S&P
Oakland County - Investment pool	5,370,252	Not rated	
Michigan CLASS - Investment pool	11,062,778	AAAm	S&P
Total	<u>\$ 57,907,019</u>		

December 31, 2018

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Mutual funds - Fixed income	\$ 4,149,212	A1	Moody's
Commingled funds - Fixed income	11,572,901	A1	Moody's
Total	<u>\$ 15,722,113</u>		

Fair Value Measurements

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

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

December 31, 2018

Note 3 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of December 31, 2018:

Assets Measured at Carrying Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets				
Debt securities:				
U.S. Treasuries	\$ 15,109,660	\$ -	\$ -	\$ 15,109,660
U.S. government agency	-	25,268,320	-	25,268,320
Mutual funds - Fixed income	4,149,212	-	-	4,149,212
Total debt securities	19,258,872	25,268,320	-	44,527,192
Equity securities:				
Common stock	5,767,780	-	-	5,767,780
Foreign stock	397,603	-	-	397,603
Real estate stocks	1,244,809	-	-	1,244,809
Mutual funds - Equity	11,391,192	-	-	11,391,192
Total equity securities	18,801,384	-	-	18,801,384
Total investments by fair value level	<u>\$ 38,060,256</u>	<u>\$ 25,268,320</u>	<u>\$ -</u>	63,328,576
Investments measured at net asset value (NAV):				
Oakland County Local Government Investment Pool				5,370,252
Michigan CLASS - Investment pool				11,062,778
Commingled funds				25,634,478
Multistrategy hedge funds				5,272,947
Private real estate funds				9,840,731
Total investments measured at NAV				<u>57,181,186</u>
Total assets				<u>\$ 120,509,762</u>

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

The fair values of U.S. government agency securities at December 31, 2018 were determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using interactive data, which uses other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

December 31, 2018

Note 3 - Deposits and Investments (Continued)***Investments in Entities that Calculate Net Asset Value per Share***

The City 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.

At December 31, 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
Oakland County Local Government				
Investment Pool	\$ 5,370,252	\$ -	No restrictions	None
Michigan CLASS	11,062,778	-	No restrictions	None
Commingled funds	25,634,478	-	Daily - Monthly	Daily - 15 days
Multistrategy hedge funds	5,272,947	-	None - Quarterly	None - 95 days
Private real estate funds	9,840,731	806,420	None - Quarterly	None - 10 days
Total	<u>\$ 57,181,186</u>	<u>\$ 806,420</u>		

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A-1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

The Oakland County Local Government Investment Pool (LGIP) is not registered with the SEC and does not issue a separate report. The fair value of the position in the pool is not the same as the value of the pool shares, since the pool does not meet the requirements under GASB 79 to report its value for financial reporting purposes at amortized cost.

Commingled Funds - This type includes three commingled funds that invest in publicly traded domestic equity, international equity, or fixed income. All of the underlying securities within the commingled funds carry a Level 1 or Level 2 valuation.

Multistrategy Hedge Funds - This type invests in three hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this type includes investments in approximately 44 percent global stocks, 28 percent global fixed income, and 28 percent balanced/global macro. The fair values of the investments in this type have been determined using NAV per share (or its equivalent) of the investments.

Private Real Estate - This type includes four real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next one to eight years. One hundred percent of the total investment in this type is expected to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. Approximately 30 percent of the assets are able to be liquidated via a quarterly redemption queue. The balance of the assets will be liquidated as underlying properties are sold or the investee fund's management approves of the buyer before the sale of the investments can be completed.

December 31, 2018

Note 4 - Receivables

Receivables as of December 31, 2018 for the City's governmental activities, business-type activities, and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Receivables:			
Property taxes receivable	\$ 11,953,538	\$ -	\$ 1,184,319
Special assessments receivable	1,381,381	-	-
Customer receivables	600,008	3,564,261	-
Other receivables	32,495	-	129,867
Due from other governments	2,268,365	-	-
Net receivables	<u>\$ 16,235,787</u>	<u>\$ 3,564,261</u>	<u>\$ 1,314,186</u>

Note 5 - Restricted Assets

Restricted assets in the governmental activities represent cash held by the Auburn Hills Community Foundation (the "Foundation") in the amount of \$30,000 that is reflective of donations made to the Foundation for the benefit of the City that are restricted for city capital projects. Additionally, restricted assets in the amount of \$1,151,620 are reflective of the unspent bond proceeds recorded in the Capital Projects Fund.

Restricted assets in the business-type activities are composed of the City's unspent bond proceeds held by Oakland County, Michigan (the "County") for the improvement of the water and sewer system in the amount of \$357,251. The County holds these monies to apply against future water and sewer system construction for the City. Additionally, restricted assets include a deposit held by North Oakland County Water Authority (NOCWA) in the amount of \$776,610. NOCWA is holding the deposit to cover future water expenses.

Note 6 - Deferred Inflows/Outflows of Resources

At the end of the current fiscal year, the various components of deferred outflows of resources are as follows:

	Governmental Activities	Business-type Activities
OPEB related (Note 13)	\$ 1,413,055	\$ 117,504
Pension related (Note 12)	1,703,506	145,595
Total deferred outflows	<u>\$ 3,116,561</u>	<u>\$ 263,099</u>

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds	Governmental Activities	Business-type Activities	Component Units
Property taxes levied for the next fiscal year	\$ 16,513,892	\$ 16,513,892	\$ -	\$ 1,662,502
Special assessments - Unavailable	1,368,683	-	-	-
Grant and other revenue - Unavailable	396,001	-	-	-
Total deferred inflows of resources	<u>\$ 18,278,576</u>	<u>\$ 16,513,892</u>	<u>\$ -</u>	<u>\$ 1,662,502</u>

December 31, 2018

Note 7 - Capital Assets

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

Governmental Activities

	Balance January 1, 2018	Reclassifications	Additions	Disposals	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 5,648,991	\$ -	\$ -	\$ -	\$ 5,648,991
Construction in progress	634,817	(450,583)	2,776,065	(19,136)	2,941,163
Subtotal	6,283,808	(450,583)	2,776,065	(19,136)	8,590,154
Capital assets being depreciated:					
Roads	79,390,533	-	3,191,931	-	82,582,464
Storm drains	7,713,816	-	-	-	7,713,816
Buildings and improvements	18,959,179	424,240	889,510	-	20,272,929
Machinery and equipment	8,460,981	-	524,584	(34,549)	8,951,016
Vehicles	7,131,009	-	1,554,906	(152,758)	8,533,157
Office furnishings and equipment	1,330,132	-	-	-	1,330,132
Land improvements	8,900	26,343	577,627	-	612,870
Subtotal	122,994,550	450,583	6,738,558	(187,307)	129,996,384
Accumulated depreciation:					
Roads	34,513,986	-	2,119,516	-	36,633,502
Storm drains	2,195,033	-	153,893	-	2,348,926
Buildings and improvements	11,893,631	-	730,856	-	12,624,487
Machinery and equipment	7,394,987	-	700,010	(34,549)	8,060,448
Vehicles	6,186,248	-	629,355	(152,758)	6,662,845
Office furnishings and equipment	1,286,076	-	27,240	-	1,313,316
Land improvements	3,263	-	593	-	3,856
Subtotal	63,473,224	-	4,361,463	(187,307)	67,647,380
Net capital assets being depreciated	59,521,326	450,583	2,377,095	-	62,349,004
Net governmental activities capital assets	\$ 65,805,134	\$ -	\$ 5,153,160	\$ (19,136)	\$ 70,939,158

December 31, 2018

Note 7 - Capital Assets (Continued)***Business-type Activities***

	Balance January 1, 2018	Reclassifications	Additions	Disposals	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 8,325,776	\$ -	\$ -	\$ -	\$ 8,325,776
Construction in progress	1,550,351	(170,344)	2,282,145	-	3,662,152
Subtotal	9,876,127	(170,344)	2,282,145	-	11,987,928
Capital assets being depreciated:					
Water and sewer mains	83,120,330	170,344	8,048,972	-	91,339,646
Buildings and improvements	10,650,199	-	-	-	10,650,199
Machinery and equipment	2,961,623	-	160,749	-	3,122,372
Subtotal	96,732,152	170,344	8,209,721	-	105,112,217
Accumulated depreciation:					
Water and sewer mains	28,435,996	-	2,049,083	-	30,485,079
Buildings and improvements	6,090,418	-	392,379	-	6,482,797
Machinery and equipment	2,851,939	-	93,862	-	2,945,801
Subtotal	37,378,353	-	2,535,324	-	39,913,677
Net capital assets being depreciated	59,353,799	170,344	5,674,397	-	65,198,540
Net business-type activities capital assets	\$ 69,229,926	\$ -	\$ 7,956,542	\$ -	\$ 77,186,468

December 31, 2018

Note 7 - Capital Assets (Continued)

Capital asset activity for the City's component units at December 31, 2018 is as follows:

Component Units

	Balance January 1, 2018	Reclassifications	Additions	Disposals	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 7,856,676	\$ -	\$ -	\$ -	\$ 7,856,676
Construction in progress	345,438	(76,356)	1,248,617	-	1,517,699
Subtotal	8,202,114	(76,356)	1,248,617	-	9,374,375
Capital assets being depreciated:					
Roads	36,051,420	76,356	-	-	36,127,776
Buildings and improvements	26,650,587	-	66,907	-	26,717,494
Office furniture and equipment	604,528	-	-	-	604,528
Land improvements	7,134,407	-	-	-	7,134,407
Subtotal	70,440,942	76,356	66,907	-	70,584,205
Accumulated depreciation:					
Roads	9,982,350	-	952,773	-	10,935,123
Buildings and improvements	7,703,766	-	684,107	-	8,387,873
Office furniture and equipment	521,630	-	37,001	-	558,631
Land improvements	2,738,588	-	287,180	-	3,025,768
Subtotal	20,946,334	-	1,961,061	-	22,907,395
Net capital assets being depreciated	49,494,608	76,356	(1,894,154)	-	47,676,810
Net component units capital assets	<u>\$ 57,696,722</u>	<u>\$ -</u>	<u>\$ (645,537)</u>	<u>\$ -</u>	<u>\$ 57,051,185</u>

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

Governmental activities:	
General government	\$ 180,232
Public safety	314,720
Public works	2,735,562
Community and economic development	13,799
Internal service	1,117,150
Total governmental activities	<u>\$ 4,361,463</u>
Business-type activities:	
Water & Sewer Fund	\$ 2,248,956
Fieldstone Golf Club Fund	286,368
Total business-type activities	<u>\$ 2,535,324</u>
Component unit activities:	
TIFA A	\$ 335,680
TIFA B	798,080
TIFA D	827,301
Total component unit activities	<u>\$ 1,961,061</u>

December 31, 2018

Note 7 - Capital Assets (Continued)**Construction Commitments**

The City has various active construction projects ongoing at year end whereby the City has a contractual obligation with a third party for construction and design work. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Amphitheater and Splash Pad	\$ 692,051	\$ 652,734
Auburn Road and Downtown Rehab	3,863,318	535,000
South Squirrel Road	131,838	2,094,072
Opdyke Pathway and Water main	3,877,832	544,340
Hawkwoods Lodge	34,980	550,000
Pedestrian Alleyway	17,526	132,474
Total	<u>\$ 8,617,545</u>	<u>\$ 4,508,620</u>

Note 8 - Long-term Debt

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

Long-term debt activity can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:							
State Revolving Fund Loan - Storm Water Management Retrofit (1)	2.50%	\$5,000 - \$10,000	\$ 92,658	\$ -	\$ (5,000)	\$ 87,658	\$ 5,000
State Revolving Fund Loan - Storm Water Management Galloway Drain (1)	2.50%	\$45,000 - \$60,000	660,000	-	(45,000)	615,000	45,000
Capital Improvement Bonds, Series 2017 (LTGO) (2)	3.00%	\$375,000 - \$550,000	6,865,000	-	(445,000)	6,420,000	375,000
Special Assessment Bonds, Series 2017 (LTGO) (3)	2.00% - 2.25%	\$165,000 - \$175,000	1,665,000	-	(125,000)	1,540,000	175,000
Total principal outstanding			9,282,658	-	(620,000)	8,662,658	600,000
Unamortized bond premiums			312,384	-	(22,569)	289,815	-
Total bonds payable			9,595,042	-	(642,569)	8,952,473	600,000
Accumulated compensated absences			1,496,864	276,884	(189,063)	1,584,685	228,361
Total governmental activities long-term debt			<u>\$ 11,091,906</u>	<u>\$ 276,884</u>	<u>\$ (831,632)</u>	<u>\$ 10,537,158</u>	<u>\$ 828,361</u>

(1) The principal repayment amounts for the SWMR and Galloway Drain projects represent 60 percent of the project costs, while 40 percent of the project costs qualified for principal forgiveness from the American Recovery and Reinvestment Act of 2009. Principal payments on both projects began in April 2011, and the loan repayments are amortized over 20 years with an interest rate of 2.5 percent.

December 31, 2018

Note 8 - Long-term Debt (Continued)

(2) In October 2017, the City issued Capital Improvements Bonds to fund a portion of the City's costs of improvements in three Special Assessment Districts (Pacific Drive, N. Atlantic and Continental Drives, and Deepwood Drive), as well as fund the construction costs of other identified road, building, and facility improvements completed in 2018. The original issue amount was \$6,865,000. The final loan payment related to issuance is expected to be fiscal year 2032.

(3) In October 2017, the City issued Special Assessment Bonds to fund a portion of the City's upfront costs of improvements in three Special Assessment Districts (Pacific Drive, N. Atlantic and Continental Drives, and Deepwood Drive). The original issue amount was \$1,655,000. The final loan payment related to issuance is expected to be fiscal year 2027. Payments on this debt is expected to be made with special assessment revenue collected from benefiting property owners.

Business-type Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:							
Oakland-Macomb Interceptor Drain - Special Assessment Bonds, Series 2010A (4)	.50%	\$40,001 - \$54,878	\$ 647,791	\$ -	\$ (39,010)	\$ 608,781	\$ 40,001
Oakland-Macomb Interceptor Drain - Special Assessment Bonds, Series 2010B (4)	1.5-5.9%	\$9,752 - \$17,191	166,452	-	(9,257)	157,195	9,752
Oakland-Macomb Interceptor Drain - Special Assessment Bonds, Series 2011A Segment 2 (5)	1.5-5.9%	\$45,865 - \$63,318	859,756	-	(44,850)	814,906	45,865
Oakland-Macomb Interceptor Drain - Financing Source not finalized by Oakland County for OMID 2013A Segment 3 (6)	2.00%	\$100,667 - \$133,395	1,973,618	-	(98,758)	1,874,860	100,667
State Revolving Fund Loan - Sanitary Sewer Rehabilitation (7)	2.50%	\$55,000 - \$70,000	825,000	-	(55,000)	770,000	55,000
Clinton River Water Resource Recover Facility - Drainage District Drain Bond, Series 2017 (SRF) (8)	2.50%	\$44,870- \$110,205	67,743	846,806	-	914,549	90,203
Total bonds payable			4,540,360	846,806	(246,875)	5,140,291	341,488
Accumulated compensated absences			102,413	17,203	(15,254)	104,362	-
Total business-type activities long-term debt			<u>\$ 4,642,773</u>	<u>\$ 864,009</u>	<u>\$ (262,129)</u>	<u>\$ 5,244,653</u>	<u>\$ 341,488</u>

(4) During 2009, the counties of Macomb and Oakland, Michigan jointly established the Oakland-Macomb Interceptor Drain - Drainage District (OMID), an intercounty drainage district, under Chapter 21 of the Drain Code. The OMID was created to acquire, operate, and maintain the Oakland-Macomb Interceptor (OMI); title to the OMI was transferred from the City of Detroit, Michigan to the OMID as part of a settlement agreement with the City of Detroit, Michigan reached in May 2009. The OMID apportioned the responsibility to pay the debt required to finance this project to the participating cities, townships, and villages located in the two counties. The OMID bond debt will be amortized over a 20-year period with an interest rate of 2.5 percent. The OMID 2010B debt has a 45 percent federal interest subsidy, which is reimbursed to the City semiannually.

(5) During 2011, additional bonds (Series 2011A) were issued through the State's revolving fund loans for Segment 2 of the OMID project. The state revolving fund loan is for a 20-year period with a fixed interest rate of 2.5 percent. The City will have a level debt service payment of approximately \$66,400 for principal and interest for the loan duration. The final loan payment related to this issuance will be in fiscal year 2033.

(6) Beginning in 2012 as part of Oakland-Macomb Interceptor Drain project, Oakland County, Michigan commenced with Segment 3 of the project. The tentative estimated cost of this segment is \$65,140,000. The City's pro rata share of the project is approximately 3.47 percent, which resulted in the City's share of the debt being approximately \$2.26 million. The City will have a level debt service payment of approximately \$138,300 for principal and interest for the loan duration. The final loan payment related to this issuance will be in fiscal year 2034.

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Note 8 - Long-term Debt (Continued)

(7) The principal repayment amounts for the Sanitary Sewer Rehabilitation represent 60 percent of the total project costs, as 40 percent of the project cost qualified for principal forgiveness from the American Recovery and Reinvestment Act of 2009. The first principal payment on this project was paid in April 2011. The loan repayments are amortized over 20 years with an interest rate of 2.5 percent.

(8) During 2017, the Clinton River Water Resource Recovery Facility Drainage District sold Drain Bonds Series 2017 for the Biosolids Handling and Septage Receiving Facility Project that spans the Oakland County community. This debt reflects the City's 6.124 percent share of this project. The final payment related to this debt is expected in 2038.

Component Unit

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Michigan							
Department of Environmental		\$49,003-					
Quality Loan (9)	1.50%	\$56,030	\$ 572,750	\$ -	\$ -	\$ 572,750	\$ -

(9) In 2016, the Brownfield Redevelopment Authority received a loan from the Michigan Department of Environmental Quality (MDEQ) to fund a redevelopment project. The redevelopment project will be completed by a developer. The Brownfield Redevelopment Authority entered into a loan agreement with the developer for the same amount of the MDEQ loan. The developer will draw down the funds from the Brownfield Redevelopment Authority in the future and will repay the loan through tax increment revenue. The Brownfield Redevelopment Authority will start making loan payments to the MDEQ in 2020, and the final loan payment will be in fiscal year 2030.

Debt Service Requirements to Maturity

Total interest expense for the year was approximately \$180,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending December 31	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 600,000	\$ 233,790	\$ 833,790	\$ 341,488	\$ 157,727	\$ 499,215	\$ -	\$ -	\$ -
2020	610,000	217,640	827,640	353,795	149,380	503,175	56,030	-	56,030
2021	625,000	201,115	826,115	330,937	153,436	484,373	48,279	7,751	56,030
2022	640,000	184,153	824,153	367,875	178,322	546,197	49,003	7,027	56,030
2023	650,000	155,049	805,049	375,550	122,940	498,490	49,739	6,292	56,031
2024-2028	3,292,658	560,034	3,852,692	1,965,566	736,588	2,702,154	260,110	20,040	280,150
2029-2033	2,245,000	132,289	2,377,289	1,271,585	87,443	1,359,028	109,589	2,471	112,060
2034-2038	-	-	-	133,495	2,711	136,206	-	-	-
Total	\$ 8,662,658	\$ 1,684,070	\$ 10,346,728	\$ 5,140,291	\$ 1,588,547	\$ 6,728,838	\$ 572,750	\$ 43,581	\$ 616,331

Component Units

Excluded from the component unit long-term debt are revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of December 31, 2018, there were five series of Economic Development Corporation bonds outstanding. The aggregate principal amount outstanding could not be determined. However, the bonds' original issue amounts totaled \$16,850,000.

December 31, 2018

Note 9 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Internal service fund - Retiree Health Care	General Fund	\$ 24,941
	Major and Local Streets Fund	1,782
	Water & Sewer Fund	2,138
	Fieldstone Golf Club Fund	356
	Total internal service fund - Retiree Health Care	29,217
General Fund	CDBG Fund	9,093
	Total	<u>\$ 38,310</u>

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

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

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Major and Local Streets Fund	\$ 1,200,000
	Capital Improvement Debt Service Fund	660,865
	Total General Fund	1,860,865
Wayne-Oakland Disposal Fund	Major and Local Streets Fund	180,000
Fieldstone Golf Club Fund	General Fund	50,000
	Total	<u>\$ 2,090,865</u>

The transfers from the General Fund to the Major and Local Streets Fund were necessary to supplement Act 51 funds provided by the State of Michigan for road maintenance. The transfer from the General Fund to the Capital Improvement Debt Service Fund was necessary for debt service payments. The transfer from the Wayne-Oakland Disposal Fund to the Major and Local Streets Fund was made to support additional local street maintenance expenditure. The transfer from the Fieldstone Golf Club Fund to the General Fund was made to return excess transfers made in previous years from the General Fund to the Fieldstone Golf Club Fund to support the golf course operations and debt service payments.

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to workers' compensation. The City is self-insured for prescriptions. The City records prescription charges incurred through the end of the fiscal year. In 2004, the City became self-insured for property damage to city vehicles under \$75,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past 10 years.

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

December 31, 2018

Note 11 - Joint Venture

The City is a member of the North Oakland County Water Authority (NOCWA), which provides joint management of the four member communities' water systems. Each of the four member communities appoints one member to the governing body. During the year ended December 31, 2018, the City contributed \$4,693,736 and \$23,032 to pay water and other obligations, respectively. Additionally, during 2015, the City deposited \$776,610 with NOCWA to cover two months' worth of expenses in the event the City fails to pay that has been recorded as a restricted asset. There are no financial statements available for the authority for the year ended December 31, 2018.

Note 12 - Pension Plans

Plan Description

The City of Auburn Hills Pension Board of Trustees (the "Pension Board") administers the City of Auburn Hills Employee Pension Plan - a single-employer defined benefit pension plan that provides pensions to all full-time employees hired prior to 1998. The plan is closed to new employees. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the plan is vested in the Pension Board, which consists of nine members - the mayor, mayor pro tem, city manager, city clerk, finance director, two public safety members elected by police and fire members of the plan, a public service member elected by public service members of the plan, and a clerical or technical member elected by clerical or technical members of the plan.

The City also established two defined contribution plans for certain employees who meet eligibility requirements. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City's first defined contribution plan was established in 1985 as a complementary plan to the defined benefit pension plan. The International City Managers Association (ICMA) administers the plan, and the City Council has authority over plan provisions and contribution requirements. This defined contribution plan is limited to members of the defined benefit pension plan. The plan is closed to employees hired after January 1, 2000. As established by the City Council, the City is required to contribute 4 percent of total salaries for employees who contribute 3 percent. Employees are permitted to make contributions to the plan up to applicable Internal Revenue Code limits. At December 31, 2018, there were 23 active employee participants.

The City established another defined contribution plan in 1998 as an alternative to the defined benefit plan. ICMA administers the plan, and the City Council has authority over plan provisions and contribution requirements. The defined contribution plan is the only plan available to employees hired after January 1, 2000. The City is required to contribute between 9 and 12 percent of total salaries. Employees are permitted to make contributions to the plan up to the applicable Internal Revenue Code limits. At December 31, 2018, there were 194 active employee participants.

In accordance with these defined contribution plan requirements, for both plans, the City contributed \$765,611 during the current year and employees contributed \$580,188. Employees are fully vested after five years of service in each plan.

December 31, 2018

Note 12 - Pension Plans (Continued)

Benefits Provided

The City of Auburn Hills Employee Pension Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefit terms are established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process. The benefits are defined as follows:

Unit	Multiplier	Max.	Final Avg. Comp.	Member Contribution	COLA (Noncompound)		
					Percent	Start	Max.
Admin	2.65%	80%	Final 5	6%	2.5%	55	15 years
Police officers	2.80%/1% at 25 years	80%	5 highest consecutive	6%	2.5%	50 (a)	15 years
Police command	2.80%	80%	5 highest consecutive	5%	2.5%	50	15 years
Detectives	2.80%	80%	5 highest consecutive	5%	2.5%	50	15 years
Dispatch	2.65%	90.1%	5 highest consecutive	5%	2.5%	55	15 years
IA fire	2.65%	80%	Highest 3 of final 5	6%	2.5%	55	15 years
PT fire	(b)		N/A	0%	N/A		

(a) Normal retirement is either 25 years of service or age 50 with 15 years of service; an officer with 25 years of service could have normal retirement prior to age 50 and would begin receiving benefit increases each January 1 following one year of retirement.

(b) \$5 per month for each year of service prior to January 1, 1988; \$10 per month for each year of service after January 1, 1988.

Deferred Retirement - Annual Amount - Computed as service retirement but based upon service, AFC, and benefit multiplier in effect at termination. Benefits begin at the date retirement would have occurred had the member remained in employment.

Death after Retirement - Annual Amount - Surviving spouse receives the excess of member contributions with interest over the total of benefits paid.

Death in Service - Annual Amount - Surviving beneficiary receives 100 times the projected monthly benefit.

Disability - Annual Amount - With long-term disability - the greater of a member's accrued benefit or 60 percent of the projected benefit, based on AFC at the date of disability and years of service until earliest retirement (payable at age 65). Without long-term disability - the accrued benefit is payable immediately with 10 years of service if age 40.

December 31, 2018

Note 12 - Pension Plans (Continued)***Employees Covered by Benefit Terms***

The following employees were covered by the benefit terms:

	City of Auburn Hills Employee Pension Plan
Date of member count	December 31, 2018
Inactive plan members or beneficiaries currently receiving benefits	114
Inactive plan members entitled to but not yet receiving benefits	13
Active plan members	21
Total employees covered by the plan	148

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the Pension Board in accordance with the City's collective bargaining units. The system contribution from employees is detailed in the table below. For the year ended December 31, 2018, the average active member contribution rate was 44.76 percent of annual pay.

Net Pension Liability

The City has chosen to use December 31, 2018 as its measurement date for the net pension liability. The December 31, 2018 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2018 measurement date. The December 31, 2018 measurement date total pension liability was determined by an actuarial valuation performed as of December 31, 2017 that has used procedures to roll the information forward to the measurement date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at January 1, 2018	\$ 70,685,205	\$ 52,366,158	\$ 18,319,047
Changes for the year:			
Service cost	624,297	-	624,297
Interest	3,873,213	-	3,873,213
Changes in assumptions	(1,437,482)	-	(1,437,482)
Contributions - Employer	-	765,611	(765,611)
Contributions - Employee	-	115,417	(115,417)
Net investment (loss) income	-	(933,112)	933,112
Benefit payments, including refunds	(3,593,596)	(3,593,596)	-
Net changes	(533,568)	(3,645,680)	3,112,112
Balance at December 31, 2018	<u>\$ 70,151,637</u>	<u>\$ 48,720,478</u>	<u>\$ 21,431,159</u>

The plan's fiduciary net position represents 69.45 percent of the total pension liability.

December 31, 2018

Note 12 - Pension Plans (Continued)***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended December 31, 2018, the City recognized pension expense of \$762,002, exclusive of the defined contribution plan expenses described above.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,849,101	\$ -

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

Years Ending December 31	Amount
2019	\$ 497,068
2020	248,018
2021	250,183
2022	853,832

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions applied to all periods included in the measurement:

- Inflation: 2.50 percent
- Salary increases (including inflation): 4.5 percent
- Investment rate of return (net of investment expense): 6.50 percent
- Mortality rates: RP 2014 with Generational Mortality Scale MP 2017
- Cost of living adjustments (COLA): 2.5 percent simple payable for 15 years for future retirees. Current retiree COLA depends on date of retirement.

Discount Rate

The discount rate used to measure the total pension liability was 5.59 percent in the December 31, 2018 valuation. 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.

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied only to periods before the crossover, which was projected by the actuary to occur in 2044, after which time the Bond Buyer General Obligation 20-Year Bond Municipal Bond Index rate of 4.10 percent was applied to remaining projected benefits.

December 31, 2018

Note 12 - Pension Plans (Continued)***Investment Rate of Return***

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 geometric real rates of return as of December 31, 2018 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic large-cap equity	25.00 %	4.94 %
Domestic small-/mid-cap equity	10.00	5.70
International equity	15.00	5.23
Domestic bonds	30.00	1.98
Real estate	10.00	4.18
Alternative investments	10.00	3.71

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

The following presents the net pension liability of the City, calculated using the discount rate of 5.59 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.59 percent) or 1 percentage point higher (6.59 percent) than the current rate:

	1 Percent Decrease (4.59%)	Current Discount Rate (5.59%)	1 Percent Increase (6.59%)
Net pension liability of the City of Auburn Hills Employee Pension Plan	\$ 30,441,822	\$ 21,431,159	\$ 13,984,701

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Assumption Changes

- The single discount rate increased from 5.57 to 5.59 percent for the December 31, 2018 valuation.
- Mortality rates were based on the RP 2014 with Generational Mortality Scale MP 2017 for December 31, 2018. For the December 31, 2017 valuation, the RP 2014 with Generational Mortality Scale MP 2016 table was used.
- The expected long-term rate of return decreased from 6.54 to 6.50 percent.

December 31, 2018

Note 13 - Other Postemployment Benefit Plan***Plan Description***

The Auburn Hills Retiree Healthcare Board provides postemployment benefits other than pensions (OPEB) to eligible former City Council members and retired employees and eligible dependents, as well as to certain retirees and eligible dependents of the Auburn Hills Public Library. The benefits are provided through the Auburn Hills Retiree Health Care Plan, a cost-sharing defined OPEB plan administered by the Auburn Hills Retiree Health Care Plan Board. There are two participating employers in the plan, the City of Auburn Hills, Michigan and the Auburn Hills Public Library (the "Library").

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

Management of the plan is vested in the Retiree Health Care Board, which consists of nine members - the mayor, mayor pro tem, city manager, city clerk, finance director, and four members elected by their constituents (two public safety members, one public service member, and one clerical or technical member).

Benefits Provided

The Auburn Hills Retiree Health Care Plan provides healthcare, dental, and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and generally the full cost of the benefits is covered by the plan. The City is self-insured for prescriptions, and the full cost of benefits is covered by the plan. As of January 1, 2012, the plan was closed to new entrants.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	<u>Auburn Hills Retiree Health Care Plan</u>
Date of member count	December 31, 2018
Inactive plan members or beneficiaries currently receiving benefits	100
Active plan members	<u>84</u>
Total plan members	<u><u>184</u></u>

Contributions

The City Code grants the authority to establish and amend the contribution requirements of the City and employees to the board. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the year ended December 31, 2018, the City paid postemployment healthcare premiums of \$1,354,238, plus it contributed \$1,000,000 into a prefunded retiree healthcare fund, which is reported in this financial statements as a Pension and Other Employee Benefit Trust Fund type. Employees are not required to contribute to the plan.

Net OPEB Liability

The net OPEB liability of \$17,539,922 has been allocated separately to the City and to the Library. A special funding situation does not exist in accordance with Governmental Accounting Standards Board Statement No. 75, and, therefore, the City has not recorded the Library's proportionate share of the net OPEB liability. The City's proportionate share of the net OPEB liability is \$17,073,942 at December 31, 2018. At December 31, 2017, the City's proportionate share was 97.3 percent, based on the City's number of plan members as a percentage of the plan's total members. At December 31, 2017, the prior measurement date, the City's proportionate share was 98.9 percent, or a 1.6 percent change.

December 31, 2018

Note 13 - Other Postemployment Benefit Plan (Continued)

The City has chosen to use the December 31, 2018 measurement date as its measurement date for the net OPEB liability. The December 31, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2018 measurement date. The December 31, 2018 total OPEB liability was determined by an actuarial valuation performed as of December 31, 2017, which used updated procedures to roll forward the liability to December 31, 2018.

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at December 31, 2017	\$ 34,165,788	\$ 18,059,976	\$ 16,105,812
Changes for the year:			
Service cost	778,931	-	778,931
Interest	2,252,089	-	2,252,089
Changes in assumptions	180,873	-	180,873
Contributions - Employer	-	2,354,238	(2,354,238)
Net investment (loss) income	-	(576,455)	576,455
Benefit payments, including refunds	(1,354,238)	(1,354,238)	-
Net changes	1,857,655	423,545	1,434,110
Balance at December 31, 2018	<u>\$ 36,023,443</u>	<u>\$ 18,483,521</u>	<u>\$ 17,539,922</u>

The plan's fiduciary net position represents 51.3 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$2,157,144.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 132,051	\$ -
Net difference between projected and actual earnings on OPEB plan investments	1,398,508	-
Total	<u>\$ 1,530,559</u>	<u>\$ -</u>

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

Years Ending December 31	Amount
2019	\$ 393,644
2020	393,644
2021	393,644
2022	349,627
Total	<u>\$ 1,530,559</u>

December 31, 2018

Note 13 - Other Postemployment Benefit Plan (Continued)**Actuarial Assumptions**

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using an investment rate of return (net of investment expenses) of 6.50 percent; a healthcare cost trend rate of 6.0 percent for 2017, decreasing 0.1 percent per year to an ultimate rate of 5 percent for 2028 and later years; and the RP-2014 mortality tables with MP 2017 Generational Mortality. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.5 percent and is based off of the assumption that the benefits paid each year will be funded entirely from pay-as-you-go contributions provided by the City and the Library.

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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 OPEB 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 adding expected inflation. Best estimates of geometric real rates of return as of the December 31, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic bonds	30.00 %	1.98 %
Domestic large-cap equity	25.00	4.94
Domestic small-/mid-cap equity	15.00	5.70
International equity	10.00	5.23
Real estate	10.00	4.18
Alternative investments	10.00	3.71

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

The following presents the net OPEB liability of the plan and the City's proportionate share, calculated using the discount rate of 6.5 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.50 Percent)	Current Discount Rate (6.50 Percent)	1 Percent Increase (7.50 Percent)
Net OPEB liability of the Auburn Hills Retiree Health Care Plan	\$ 22,935,611	\$ 17,539,922	\$ 13,180,534
City's proportionate share of the Net OPEB liability of the Auburn Hills Retiree Health Care Plan	22,326,284	17,073,942	12,830,369

December 31, 2018

Note 13 - Other Postemployment Benefit Plan (Continued)***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate***

The following presents the net OPEB liability of the plan and the City's proportionate share, calculated using the healthcare cost trend rate of 6.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.00 Percent)	Current Healthcare Cost Trend Rate (6.00 Percent)	1 Percent Increase (7.00 Percent)
Net OPEB liability of the Auburn Hills Retiree Health Care Plan	\$ 12,513,765	\$ 17,539,922	\$ 23,857,847
City's proportionate share of the Net OPEB liability of the Auburn Hills Retiree Health Care Plan	12,181,314	17,073,942	23,224,020

OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Assumption Changes

- The single discount rate decreased from 6.57 to 6.50 percent for the December 31, 2018 valuation.
- Mortality rates were based on the RP 2014 with Generational Mortality Scale MP 2017 for December 31, 2018. For the December 31, 2017 valuation, the RP 2014 with Generational Mortality Scale MP 2016 table was used.
- The expected long-term rate of return decreased from 6.57 to 6.50 percent for the December 31, 2018 valuation.

Note 14 - Other Postemployment Benefits - Health Savings Plan

The City provides retiree healthcare benefits to employees ineligible for the defined benefit retiree healthcare plan through the Retiree Health Savings (RHS) Plan. ICMA Retirement Corporation administers the plan, and the City Council has authority over plan provisions and contribution requirements. The benefits are provided under collective bargaining agreements. The City is required to contribute 3 percent of total salaries, while employees must contribute either 3 percent of their salaries for the administrative group or 5 percent for the participants in the fire, ASFCME, and the police command, detective, and patrol units, not to exceed amounts limited by statute. All employee units are vested after 10 years, with the exception of the fire unit, which is vested after five years with the City.

During the year ended December 31, 2018, the City made contributions of \$87,827, and the plan members contributed \$140,647 to the plan.

December 31, 2018

Note 15 - Pension and Other Employee Benefit Trust Funds

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

	Pension Trust Fund	Retiree Health Care Trust Fund	Total
Statement of Net Position			
Cash and cash equivalents	\$ 1,779,958	\$ 1,495,418	\$ 3,275,376
Investments	46,763,130	16,935,621	63,698,751
Other assets	177,390	52,483	229,873
Net position	<u>\$ 48,720,478</u>	<u>\$ 18,483,522</u>	<u>\$ 67,204,000</u>
Statement of Changes in Net Position			
Investment loss	\$ (761,515)	\$ (521,494)	\$ (1,283,009)
Contributions	881,028	2,354,238	3,235,266
Benefit payments/Medical expenses	3,593,596	1,354,238	4,947,834
Investment-related expenses	171,596	54,962	226,558
Net change in net position	<u>\$ (3,645,679)</u>	<u>\$ 423,544</u>	<u>\$ (3,222,135)</u>

Note 16 - Tax Abatements

The City offers property tax incentives to promote economic activity, increase and retain employment, and provide incentives for investment in property that increase the tax base of the City. The more significant property tax abatements, as defined by GASB No. 77, *Tax Abatement Disclosures*, that occurred during fiscal year 2018 are as follows:

The City uses the New Facility Industrial Facilities Exemption Certificate (IFEC) to enter into agreements with local businesses for industrial real property and land improvements, other than a replacement facility to be built or installed in a plant rehabilitation district or industrial development district by an existing business or new business, as provided in PA 198 of 1974. The minimum investment in a facility shall have an estimated construction value of \$2,000,000. Under the program, the City grants reductions of 50 percent of the property tax bill for real property for up to 12 years. As a condition of receiving the IFEC pursuant to city policy, the business agrees to operate the facility for which the certificate is granted for the term of the certificate plus an additional term after the date of expiration of the certificate equal to one year of business residency per abated year. If a business vacates or fails to operate the facility for which the certificate is granted, then it shall be liable for repayment of any property tax savings benefiting the business due to the existence of the certificate, beginning with the initial effective year of the certificate. For the fiscal year ended December 31, 2018, the City abated approximately \$427,000 of taxes under this program.

The City uses the Replacement or Rehabilitation of Obsolete Industrial Property IFEC to enter into agreements with a new or existing business for real property that meets the definition of obsolete property, as contained in the Plant Rehabilitation and Industrial Development Districts PA 198 of 1974, and is included within a plant rehabilitation district and will require restoration or replacement. The planned investment must correct functional obsolescence, and the minimum investment in a facility shall have an estimated construction value of \$2,000,000. Under this program, property tax values may be frozen for up to 12 years. As a condition of receiving the IFEC pursuant to city policy, the business agrees to operate the facility for which the certificate is granted for the term of the certificate plus an additional term after the date of expiration of the certificate equal to one year of business residency per abated year. If a business vacates or fails to operate the facility for which the certificate is granted, then it shall be liable for repayment of any property tax savings benefiting the business due to the existence of the certificate, beginning with the initial effective year of the certificate. For the fiscal year ended December 31, 2018, the City abated approximately \$20,000 of taxes under this program.

December 31, 2018

Note 16 - Tax Abatements (Continued)

The City uses the New Personal Property Exemption to enter into agreements with businesses located within a specific district in the City, as provided in PA 328 of 1998. Under the program, the City grants reductions of 100 percent of property tax bill for real property for up to 10 years. As a condition of receiving the New Personal Property Exemption, the business agrees to operate the facility for which the certificate is granted for the term of the certificate plus an additional term after the date of expiration of the certificate equal to one year of business residency per abated year. If a business vacates or fails to operate the facility for which the certificate is granted, then it shall be liable for repayment of any property tax savings benefiting the business due to the existence of the certificate, beginning with the initial effective year of the certificate. For the fiscal year ended December 31, 2018, the City abated approximately \$220,000 of taxes under this program.

The City has a payment in lieu of taxes agreement with a business that provides housing for elderly citizens of low and moderate income, which is federally aided or statute authority aided in accordance with the State Housing Development Act of 1966, as provided in PA 346 of 1966. Under this program, the property pays 6 percent of rental income to the City in lieu of taxes. The tax-exempt status of the property shall be rescinded when the authority no longer has an interest in the property. For the fiscal year ended December 31, 2018, the City abated approximately \$37,000 of taxes under this program.

Finally, the Brownfield Redevelopment Authority, a discretely presented component unit, uses Brownfield Redevelopment Agreements under PA 381 of 1996 to capture property taxes within the Brownfield area and then uses those captures to reimburse taxpayers that remediate environmental contamination on their properties. As a result of these agreements, the City's tax revenue is reduced as this revenue is captured by the Brownfield Redevelopment Authority. For the fiscal year ended December 31, 2018, the Brownfield Redevelopment Authority captured approximately \$326,000 of city taxes, in addition to captures from other taxing jurisdictions. Additionally, this captured Brownfield revenue must, by agreement, be used in part to reimburse developers. Due to the restricted nature of these agreements, the Brownfield Redevelopment Authority essentially must pass on related tax dollars to the developers and, for the purpose of this pronouncement, reimbursed approximately \$80,000 to developers during the year.

Note 17 - Change in Accounting Principle

During the current year, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the government-wide statements and proprietary funds now include a liability for the unfunded portion of the City's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measure, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan footnote for further details. This change does not impact the General Fund or any other governmental funds.

As a result of implementing this statement, the beginning net position of the governmental activities, Water & Sewer Fund, Fieldstone Golf Club Fund, business-type activities, Fleet Management Fund, and internal service funds has been restated as follows:

	Governmental Activities		
	Fleet Management	Internal Service Funds	Governmental Activities
Net position - December 31, 2017	\$ 5,916,127	\$ 6,327,661	\$ 80,148,029
GASB 45 - Net OPEB asset	-	-	(1,559,385)
GASB 75 - Net OPEB liability	(172,728)	(172,728)	(14,689,322)
Net position - December 31, 2017 - As restated	<u>\$ 5,743,399</u>	<u>\$ 6,154,933</u>	<u>\$ 63,899,322</u>

December 31, 2018

Note 17 - Change in Accounting Principle (Continued)

	Proprietary Funds		
	Water & Sewer Fund	Fieldstone Golf Club	Business-type Activities
Net position - December 31, 2017	\$ 82,107,799	\$ 11,586,819	\$ 94,913,220
GASB 75 - Net OPEB liability	(1,036,368)	(172,728)	(1,243,762)
Net position - December 31, 2017 - As restated	<u>\$ 81,071,431</u>	<u>\$ 11,414,091</u>	<u>\$ 93,669,458</u>

The impact on the prior year changes in net position could not be determined.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 16,380,283	\$ 16,349,167	\$ 16,409,024	\$ 59,857
Special assessments	34,000	37,500	83,314	45,814
Intergovernmental	2,955,064	4,909,834	4,093,531	(816,303)
Charges for services:				
Construction code fees	934,000	1,549,400	1,685,654	136,254
Charges to other funds	2,632,448	2,660,601	2,637,001	(23,600)
User fees	583,062	569,373	563,433	(5,940)
Service charge	814,000	1,098,040	1,108,927	10,887
Fines and forfeitures	304,200	457,920	348,978	(108,942)
Licenses and permits	581,229	526,150	515,306	(10,844)
Investment income	186,679	208,300	381,436	173,136
Other revenue:				
Donations	48,200	622,769	622,667	(102)
Other miscellaneous income	612,396	1,047,415	1,037,580	(9,835)
Total revenue	26,065,561	30,036,469	29,486,851	(549,618)
Expenditures				
Current services:				
General government:				
City Council	145,065	130,736	129,330	1,406
City manager	901,219	870,337	834,484	35,853
Information services	419,006	425,174	330,744	94,430
Finance/Treasurer	738,995	669,521	621,632	47,889
Assessing	559,189	573,535	555,305	18,230
Clerk	325,331	316,823	274,686	42,137
Facilities	1,690,599	1,720,467	1,705,616	14,851
Human resources	265,234	269,698	250,762	18,936
Pension board	82,238	88,204	77,008	11,196
Parks and grounds	1,760,895	1,692,840	1,618,775	74,065
General administration	826,740	2,974,301	2,939,450	34,851
Public safety:				
Police - Patrol	7,100,344	6,476,596	6,428,133	48,463
Police - Investigations	-	-	11	(11)
Police - Technical services	-	14,600	(314)	14,914
Fire - Suppression	3,721,817	3,617,710	3,455,040	162,670
Fire - Prevention	314,835	325,065	314,516	10,549
Police administration	1,472,659	1,601,242	1,533,683	67,559
Fire administration	537,620	487,902	448,995	38,907
Building inspections and related	997,485	1,261,124	1,255,475	5,649
Public works:				
Storm water management	175,777	641,092	156,944	484,148
DPW management services	631,838	568,190	537,791	30,399
Community and economic development:				
Community Development Administration	252,815	254,234	242,864	11,370
Senior citizens	517,866	494,605	432,447	62,158
Grant expenditures - SMART	42,886	46,370	51,667	(5,297)
Recreation and culture - Recreation	582,160	1,136,071	1,119,592	16,479
Debt service	68,192	68,192	68,191	1
Total expenditures	24,130,805	26,724,629	25,382,827	1,341,802
Excess of Revenue Over Expenditures	1,934,756	3,311,840	4,104,024	792,184
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	50,000	-
Transfers out	(2,483,073)	(2,625,866)	(1,860,865)	765,001
Total other financing uses	(2,433,073)	(2,575,866)	(1,810,865)	765,001
Net Change in Fund Balance	(498,317)	735,974	2,293,159	1,557,185
Fund Balance - Beginning of year	28,960,779	28,960,779	28,960,779	-
Fund Balance - End of year	\$ 28,462,462	\$ 29,696,753	\$ 31,253,938	\$ 1,557,185

City of Auburn Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major and Local Streets Fund

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 1,988,710	\$ 3,676,019	\$ 2,521,631	\$ (1,154,388)
Investment income	-	-	6	6
Other revenue - Other miscellaneous income	16,891	23,250	13,875	(9,375)
Total revenue	2,005,601	3,699,269	2,535,512	(1,163,757)
Expenditures - Current - Public works	3,939,037	5,783,533	4,265,342	1,518,191
Excess of Expenditures Over Revenue	(1,933,436)	(2,084,264)	(1,729,830)	354,434
Other Financing Sources - Transfers in	1,970,000	2,145,000	1,380,000	(765,000)
Net Change in Fund Balance	36,564	60,736	(349,830)	(410,566)
Fund Balance - Beginning of year	1,104,457	1,104,457	1,104,457	-
Fund Balance - End of year	<u>\$ 1,141,021</u>	<u>\$ 1,165,193</u>	<u>\$ 754,627</u>	<u>\$ (410,566)</u>

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

	Last Five Fiscal Years*				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 624,297	\$ 591,358	\$ 842,510	\$ 809,483	\$ 381,691
Interest	3,873,213	3,664,089	3,459,438	3,369,628	3,509,763
Differences between expected and actual experience	-	290,536	(1,807,601)	489,295	72,377
Changes in assumptions	(1,437,482)	5,467,388	(9,027,540)	(578,372)	1,533,771
Benefit payments, including refunds	(3,593,596)	(3,762,724)	(3,189,841)	(3,056,599)	(2,661,802)
Net Change in Total Pension Liability	(533,568)	6,250,647	(9,723,034)	1,033,435	2,835,800
Total Pension Liability - Beginning of year	70,685,205	64,434,558	74,157,592	73,124,157	70,288,357
Total Pension Liability - End of year	\$ 70,151,637	\$ 70,685,205	\$ 64,434,558	\$ 74,157,592	\$ 73,124,157
Plan Fiduciary Net Position					
Contributions - Employer	\$ 765,611	\$ 1,034,387	\$ 1,093,400	\$ 476,733	\$ 472,439
Contributions - Member	115,417	106,629	108,915	126,708	148,282
Net investment income	(933,112)	6,181,445	2,851,238	1,630,824	3,514,376
Benefit payments, including refunds	(3,593,596)	(3,762,724)	(3,189,841)	(3,056,599)	(2,661,802)
Net Change in Plan Fiduciary Net Position	(3,645,680)	3,559,737	863,712	(822,334)	1,473,295
Plan Fiduciary Net Position - Beginning of year	52,366,158	48,806,421	47,942,709	48,765,043	47,291,748
Plan Fiduciary Net Position - End of year	\$ 48,720,478	\$ 52,366,158	\$ 48,806,421	\$ 47,942,709	\$ 48,765,043
City's Net Pension Liability - Ending	\$ 21,431,159	\$ 18,319,047	\$ 15,628,137	\$ 26,214,883	\$ 24,359,114
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	69.45 %	74.08 %	75.75 %	64.65 %	66.69 %
Covered Payroll	\$ 1,669,155	\$ 1,787,161	\$ 2,039,201	\$ 2,250,657	\$ 2,124,477
City's Net Pension Liability as a Percentage of Covered Payroll	1,283.95 %	1,025.04 %	766.39 %	1,164.77 %	1,146.59 %

* 10 years of data is required; however, only five years of information is presented, as additional information is not available.

Required Supplemental Information
Schedule of Pension Contributions

Last Ten Fiscal Years
Years Ended December 31

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 765,611	\$ 1,034,387	\$ 1,093,400	\$ 474,821	\$ 422,149	\$ 675,872	\$ 752,445	\$ 795,296	\$ 1,123,301	\$ 1,699,843
Contributions in relation to the actuarially determined contribution	765,611	1,034,387	1,093,400	476,733	472,439	677,224	821,670	1,095,918	1,541,169	1,625,050
Contribution Excess (Deficiency)	\$ -	\$ -	\$ -	\$ 1,912	\$ 50,290	\$ 1,352	\$ 69,225	\$ 300,622	\$ 417,868	\$ (74,793)
Covered Payroll	\$ 1,669,155	\$ 1,787,161	\$ 2,039,201	\$ 2,250,657	\$ 2,124,477	\$ 2,823,161	\$ 3,213,855	\$ 3,306,696	\$ 3,747,622	\$ 4,044,637
Contributions as a Percentage of Covered Payroll	45.87 %	57.88 %	53.62 %	21.18 %	22.24 %	23.99 %	25.57 %	33.14 %	41.12 %	40.18 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, the year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Aggregate as of December 31, 2007, entry age prior to December 31, 2007
Amortization method	N/A
Remaining amortization period	Remaining working lifetime
Asset valuation method	Market
Inflation	2.5 percent
Salary increase	4.50 percent including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, 7.5 percent prior to 2015
Mortality	RP 2014 Healthy Annuitant Mortality Table
Other information	The investment rate of return was reduced from 7.5 percent to 7.25 percent during 2015.

City of Auburn Hills, Michigan

Required Supplemental Information Schedule of Pension Investment Returns

	Last Five Fiscal Years*				
	Years Ended December 31				
	2018	2017	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	(1.83)%	16.92 %	6.30 %	3.90 %	7.60 %

* 10 years of data is required; however, only five years of information is presented, as additional information is not available.

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

	Last Two Fiscal Years*	
	<u>2018**</u>	<u>2017</u>
Total OPEB Liability		
Service cost	\$ 778,931	\$ 1,012,637
Interest	2,252,089	2,652,607
Differences between expected and actual experience	-	(781,920)
Changes in assumptions	180,873	600,606
Benefit payments, including refunds	<u>(1,354,238)</u>	<u>(1,304,387)</u>
Net Change in Total OPEB Liability	1,857,655	2,179,543
Total OPEB Liability - Beginning of year	<u>34,165,788</u>	<u>39,915,088</u>
Total OPEB Liability - End of year	<u>\$ 36,023,443</u>	<u>\$ 42,094,631</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,354,238	\$ 1,604,387
Net investment (loss) income	(576,455)	1,866,867
Benefit payments, including refunds	<u>(1,354,238)</u>	<u>(1,304,387)</u>
Net Change in Plan Fiduciary Net Position	423,545	2,166,867
Plan Fiduciary Net Position - Beginning of year	<u>18,059,976</u>	<u>15,893,109</u>
Plan Fiduciary Net Position - End of year	<u>\$ 18,483,521</u>	<u>\$ 18,059,976</u>
Net OPEB Liability - Ending	<u>\$ 17,539,922</u>	<u>\$ 24,034,655</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	51.31 %	42.90 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

*10 years of data is required; however, only two years of information is presented, as additional information is not available.

**The total OPEB liability as of December 31, 2017 has been restated to reflect an updated claims curve methodology.

Required Supplemental Information
Schedule of OPEB Contributions

Last Ten Fiscal Years
Years Ended December 31

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 2,233,562	\$ 1,457,864	\$ 1,526,848	\$ 1,421,536	\$ 1,179,856	\$ 1,039,846	\$ 1,081,247	\$ 1,065,670	\$ 1,219,653	\$ 1,392,647
Contributions in relation to the actuarially determined contribution	2,354,238	1,604,387	1,287,504	1,396,382	1,570,268	966,251	1,039,766	1,226,681	1,357,025	1,571,635
Contribution Excess (Deficiency)	\$ 120,676	\$ 146,523	\$ (239,344)	\$ (25,154)	\$ 390,412	\$ (73,595)	\$ (41,481)	\$ 161,011	\$ 137,372	\$ 178,988

Contributions to the OPEB Plan are not based on a measure of pay; therefore, no covered payroll is presented.

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, the year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	Market
Inflation	2.5 percent
Healthcare cost trend rates	6.0 percent decreasing 0.1 percent per year with 5.0 percent ultimate
Salary increase	5.0 percent
Investment rate of return	7.25 percent
Mortality	RP 2014 Healthy Annuitant Table

City of Auburn Hills, Michigan

Required Supplemental Information Schedule of the City's Proportionate Share of the Net OPEB Liability Auburn Hills Retiree Health Care Plan

	Last Two Fiscal Years	
	Plan Years Ended December 31	
	2018	2017
City's proportion of the net OPEB liability	97.34332 %	98.92754 %
City's proportionate share of the net OPEB liability	\$ 17,073,942	\$ 18,319,047
City's covered employee payroll	\$ 6,747,847	\$ 7,173,993
City's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	253.03 %	255.35 %
Plan fiduciary net position as a percentage of total OPEB liability	51.31 %	52.86 %

Required Supplemental Information
Schedule of OPEB Investment Returns

	Last Two Years*	
	Years Ended December 31	
	2018	2017
Annual money-weighted rate of return - Net of investment expense	(3.15)%	5.89 %

*10 years of data is required; however, only two years of information is presented, as additional information is not available.

December 31, 2018

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Monday in August, city departments, in conjunction with the finance office, prepare and submit their proposed operating budgets for the year beginning January 1 to the city manager.
2. The city manager compiles and reviews such budget requests and then prepares recommendations and submits them to the City Council on or before September 1 of each year.
3. A public hearing is conducted to obtain taxpayers' comments.
4. No later than the first Monday in November, the budget is legally enacted through council passage for the budget resolutions.
5. After the budget is adopted, any revisions that alter total expenditure of a department or fund must be approved by the City Council.

The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the department level (i.e., the level at which expenditures may not legally exceed appropriations) for the General Fund and the fund total level for all other funds.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City's General Fund incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual	Variance
Police - Investigations	\$ -	\$ 11	\$ (11)
Grant expenditures - SMART	46,370	51,667	(5,297)

Pension Information

Changes in Assumptions

1. The long-term assumed rate of return was 6.66 percent in 2016 and prior years, 6.54 percent in 2017, and 6.50 percent in 2018.
2. The following mortality tables have been used for the years ended December 31: 2016 and prior years - RP 2014 Healthy Annuitant Mortality table; 2017 - RP 2014 with Generational Mortality Scale MP 2016; 2018 - RP 2014 with Generational Mortality Scale MP 2017.
3. The single discount rate was 5.83 percent in 2016 and prior years, 5.57 percent in 2017, and 5.59 percent in 2018.

December 31, 2018

OPEB Information

Changes in Assumptions

1. The long-term assumed rate of return was decreased from 6.57 percent in 2017 to 6.50 percent in 2018.
2. The mortality tables were adjusted. The pension plan moved from using the RP 2014 with Generational Mortality Scale MP 2016 to RP 2014 with Generational Mortality Scale MP 2017.
3. The single discount rate decreased from 6.57 in 2017 to 6.50 percent in 2018.

Other Supplemental Information

City of Auburn Hills, Michigan

Nonmajor Special Revenue Funds					
	Metro Act	Wayne- Oakland Disposal	Tree Ordinance	State and Federal Drug Forfeiture	CDBG Fund
Assets					
Cash and investments	\$ 350,625	\$ 473,632	\$ 901,733	\$ 114,436	\$ 710
Receivables:					
Special assessments receivable	-	-	-	-	-
Due from other governments	-	-	-	-	31,304
Total assets	\$ 350,625	\$ 473,632	\$ 901,733	\$ 114,436	\$ 32,014
Liabilities					
Accounts payable	\$ 25,672	\$ 2,030	\$ 92	\$ -	\$ 4,081
Due to other funds	-	-	-	-	9,093
Refundable deposits and bonds	-	-	292,010	-	-
Total liabilities	25,672	2,030	292,102	-	13,174
Deferred Inflows of Resources - Unavailable revenue	-	-	-	-	-
Total liabilities and deferred inflows of resources	25,672	2,030	292,102	-	13,174
Fund Balances					
Restricted:					
Police grants and forfeitures	-	-	-	114,436	-
Debt service	-	-	-	-	-
Metro act	324,953	-	-	-	-
Tree ordinance	-	-	609,631	-	-
Community development block grant	-	-	-	-	18,840
Committed	-	471,602	-	-	-
Total fund balances	324,953	471,602	609,631	114,436	18,840
Total liabilities, deferred inflows of resources, and fund balances	\$ 350,625	\$ 473,632	\$ 901,733	\$ 114,436	\$ 32,014

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2018

Debt Service Fund		
Special Assessment Debt Service	Capital Improvement Debt Service Fund	Total
\$ 242,504	\$ -	\$ 2,083,640
1,311,438	-	1,311,438
-	-	31,304
\$ 1,553,942	\$ -	\$ 3,426,382
\$ -	\$ -	\$ 31,875
-	-	9,093
-	-	292,010
-	-	332,978
1,301,141	-	1,301,141
1,301,141	-	1,634,119
-	-	114,436
252,801	-	252,801
-	-	324,953
-	-	609,631
-	-	18,840
-	-	471,602
252,801	-	1,792,263
\$ 1,553,942	\$ -	\$ 3,426,382

City of Auburn Hills, Michigan

	Special Revenue Funds				
	Metro Act	Wayne- Oakland Disposal	Tree Ordinance	State and Federal Drug Forfeiture	CDBG Fund
Revenue					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
Federal grants	-	-	-	-	57,871
State sources - State-shared revenue	72,599	-	-	-	-
Charges for services	-	356,022	140,750	-	-
Fines and forfeitures	-	-	-	41,818	-
Investment income	5,590	2,764	8,095	-	-
Total revenue	78,189	358,786	148,845	41,818	57,871
Expenditures					
Current services:					
Public safety	-	-	-	37,061	-
Public works	208,265	28,276	70,060	-	-
Community and economic development	-	-	-	-	61,242
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	208,265	28,276	70,060	37,061	61,242
Excess of Revenue (Under) Over Expenditures	(130,076)	330,510	78,785	4,757	(3,371)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	(180,000)	-	-	-
Total other financing (uses) sources	-	(180,000)	-	-	-
Net Change in Fund Balances	(130,076)	150,510	78,785	4,757	(3,371)
Fund Balances - Beginning of year	455,029	321,092	530,846	109,679	22,211
Fund Balances - End of year	\$ 324,953	\$ 471,602	\$ 609,631	\$ 114,436	\$ 18,840

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended December 31, 2018

Debt Service Fund		
Special Assessment Debt Service	Capital Improvement Debt Service Fund	Total
\$ 175,964	\$ -	\$ 175,964
-	-	57,871
-	-	72,599
-	-	496,772
-	-	41,818
2,733	-	19,182
178,697	-	864,206
-	-	37,061
-	-	306,601
-	-	61,242
125,000	445,000	570,000
35,624	215,865	251,489
160,624	660,865	1,226,393
18,073	(660,865)	(362,187)
-	660,865	660,865
-	-	(180,000)
-	660,865	480,865
18,073	-	118,678
234,728	-	1,673,585
\$ 252,801	\$ -	\$ 1,792,263

City of Auburn Hills, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds

December 31, 2018

	Fleet Management	Retiree Health Care	Total Internal Service Funds
Assets			
Current assets:			
Cash and investments	\$ 3,636,927	\$ 1,218,623	\$ 4,855,550
Receivables	1,000	-	1,000
Due from other funds	-	29,217	29,217
Prepaid expenses and other assets	1,943	1,163	3,106
Total current assets	3,639,870	1,249,003	4,888,873
Noncurrent assets - Capital assets subject to depreciation - Net	2,437,261	-	2,437,261
Total assets	6,077,131	1,249,003	7,326,134
Deferred Outflows of Resources - Deferred OPEB costs	14,010	-	14,010
Liabilities			
Current liabilities:			
Accounts payable	33,591	-	33,591
Accrued liabilities and other	3,420	2,283	5,703
Total current liabilities	37,011	2,283	39,294
Noncurrent liabilities - Compensated absences	173,628	-	173,628
Total liabilities	210,639	2,283	212,922
Net Position			
Net investment in capital assets	2,437,261	-	2,437,261
Unrestricted	3,443,241	1,246,720	4,689,961
Total net position	<u>\$ 5,880,502</u>	<u>\$ 1,246,720</u>	<u>\$ 7,127,222</u>

City of Auburn Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds

Year Ended December 31, 2018

	Fleet Management	Retiree Health Care	Total Internal Service Funds
Operating Revenue			
Other operating income	\$ 1,825	\$ -	\$ 1,825
Charges to other funds	2,314,789	3,233,553	5,548,342
Total operating revenue	2,316,614	3,233,553	5,550,167
Operating Expenses			
Supplies	460,152	-	460,152
Contracted services	117,643	44,129	161,772
Salaries and wages	116,380	-	116,380
Fringe benefits	26,326	2,354,238	2,380,564
Other operating expenses	451,637	-	451,637
Depreciation	1,117,150	-	1,117,150
Total operating expenses	2,289,288	2,398,367	4,687,655
Operating Income	27,326	835,186	862,512
Nonoperating Revenue			
Investment income	47,343	-	47,343
Gain on sale of assets	62,434	-	62,434
Total nonoperating revenue	109,777	-	109,777
Change in Net Position	137,103	835,186	972,289
Net Position - Beginning of year - As restated	5,743,399	411,534	6,154,933
Net Position - End of year	\$ 5,880,502	\$ 1,246,720	\$ 7,127,222

Other Supplemental Information
Combining Statement of Cash Flows
Internal Service Funds

Year Ended December 31, 2018

	Fleet Management	Retiree Health Care	Total Internal Service Funds
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ 2,314,439	\$ 3,234,420	\$ 5,548,859
Payments to suppliers	(690,443)	(44,129)	(734,572)
Payments to employees and fringes	(181,663)	(2,352,804)	(2,534,467)
Payments to other funds	(335,813)	-	(335,813)
Other receipts	825	-	825
Net cash provided by operating activities	1,107,345	837,487	1,944,832
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of capital assets	62,434	-	62,434
Purchase of capital assets	(1,707,897)	-	(1,707,897)
Net cash used in capital and related financing activities	(1,645,463)	-	(1,645,463)
Cash Flows Provided by Investing Activities - Interest received on investments	47,343	-	47,343
Net (Decrease) Increase in Cash	(490,775)	837,487	346,712
Cash - Beginning of year	4,127,702	381,136	4,508,838
Cash - End of year	<u><u>\$ 3,636,927</u></u>	<u><u>\$ 1,218,623</u></u>	<u><u>\$ 4,855,550</u></u>
Combining Statement of Net Position Classification of Cash and Cash Equivalents - Cash and investments	<u><u>\$ 3,636,927</u></u>	<u><u>\$ 1,218,623</u></u>	<u><u>\$ 4,855,550</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 27,326	\$ 835,186	\$ 862,512
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	1,117,150	-	1,117,150
Changes in assets and liabilities:			
Receivables	(1,000)	-	(1,000)
Due to and from other funds	(350)	867	517
Prepaid and other assets	(989)	-	(989)
Accounts payable	4,165	-	4,165
Net pension or OPEB liability	(16,446)	-	(16,446)
Deferrals related to pension or OPEB	(14,010)	-	(14,010)
Accrued and other liabilities	(8,501)	1,434	(7,067)
Total adjustments	1,080,019	2,301	1,082,320
Net cash provided by operating activities	<u><u>\$ 1,107,345</u></u>	<u><u>\$ 837,487</u></u>	<u><u>\$ 1,944,832</u></u>

Other Supplemental Information
Combining Statement of Fiduciary Net Position
Fiduciary Funds

December 31, 2018

	Pension Trust Fund	Retiree Health Care Trust Fund	Total Pension and OPEB Funds
Assets			
Cash and cash equivalents	\$ 1,779,958	\$ 1,495,418	\$ 3,275,376
Investments:			
Mutual funds - Fixed income	-	4,149,212	4,149,212
Mutual funds - Equity	8,353,235	3,037,957	11,391,192
Multistrategy hedge funds	3,652,450	1,620,498	5,272,948
Commingled funds	21,611,354	4,023,124	25,634,478
Common stock	4,381,957	1,385,823	5,767,780
Foreign stock	287,634	109,968	397,602
Real estate	8,476,500	2,609,039	11,085,539
Receivables:			
Accrued interest receivable	13,386	6,141	19,527
Other receivables	164,004	46,342	210,346
Total assets	48,720,478	18,483,522	67,204,000
Liabilities	-	-	-
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 48,720,478	\$ 18,483,522	\$ 67,204,000

City of Auburn Hills, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds

Year Ended December 31, 2018

	Pension Trust Fund	Retiree Health Care Trust Fund	Total Pension and OPEB Funds
Additions			
Investment income (loss):			
Interest and dividends	\$ 594,672	\$ 360,134	\$ 954,806
Net decrease in fair value of investments	(1,356,187)	(881,628)	(2,237,815)
Investment-related expenses	(171,596)	(54,962)	(226,558)
Total investment loss	(933,111)	(576,456)	(1,509,567)
Contributions:			
Employer contributions	765,611	2,354,238	3,119,849
Employee contributions	115,417	-	115,417
Total contributions	881,028	2,354,238	3,235,266
Total additions	(52,083)	1,777,782	1,725,699
Deductions			
Benefit payments	3,593,596	-	3,593,596
Medical premiums/expenses	-	1,354,238	1,354,238
Total deductions	3,593,596	1,354,238	4,947,834
Net (Decrease) Increase in Net Position Held in Trust	(3,645,679)	423,544	(3,222,135)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	52,366,157	18,059,978	70,426,135
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 48,720,478</u>	<u>\$ 18,483,522</u>	<u>\$ 67,204,000</u>

City of Auburn Hills, Michigan

Other Supplemental Information Street Fund Detail - Balance Sheet

December 31, 2018

	Major Street	Local Streets	Total
Assets			
Cash and investments	\$ 1,850,898	\$ 418,011	\$ 2,268,909
Receivables:			
Other receivables	691	25	716
Due from other governments	350,265	64,411	414,676
Total assets	<u><u>\$ 2,201,854</u></u>	<u><u>\$ 482,447</u></u>	<u><u>\$ 2,684,301</u></u>
Liabilities			
Accounts payable	\$ 241,413	\$ 11,538	\$ 252,951
Due to other governmental units	603,750	11,697	615,447
Due to other funds	891	891	1,782
Refundable deposits and bonds	799,660	243,593	1,043,253
Accrued liabilities and other	10,934	5,307	16,241
Total liabilities	1,656,648	273,026	1,929,674
Fund Balances - Restricted - Roads	545,206	209,421	754,627
Total liabilities and fund balances	<u><u>\$ 2,201,854</u></u>	<u><u>\$ 482,447</u></u>	<u><u>\$ 2,684,301</u></u>

City of Auburn Hills, Michigan

Other Supplemental Information Street Fund Detail - Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2018

	Major Street	Local Streets	Total
Revenue			
Intergovernmental:			
State sources:			
Act 51 gas and weight tax	\$ 1,610,000	\$ 461,734	\$ 2,071,734
State grants	449,897	-	449,897
Investment income	2	4	6
Other revenue - Other miscellaneous income	12,790	1,085	13,875
Total revenue	2,072,689	462,823	2,535,512
Expenditures - Streets and public improvements	3,287,321	978,021	4,265,342
Excess of Expenditures Over Revenue	(1,214,632)	(515,198)	(1,729,830)
Other Financing Sources - Transfers in	1,000,000	380,000	1,380,000
Net Change in Fund Balances	(214,632)	(135,198)	(349,830)
Fund Balances - Beginning of year	759,838	344,619	1,104,457
Fund Balances - End of year	<u>\$ 545,206</u>	<u>\$ 209,421</u>	<u>\$ 754,627</u>