

**City of Farmington Hills Post-Retirement
Healthcare Finance Fund**

Financial Statements

June 30, 2020



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Post-Retirement Healthcare Finance Fund

November 16, 2020

Board of Trustees of the City of Farmington Hills Post-Retirement Healthcare Finance Fund

I am pleased to submit the City of Farmington Hills Post-Retirement Healthcare Finance Fund Annual Financial Report for the fiscal year ended June 30, 2020. This report was prepared by the City of Farmington Hills Finance Department in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board. This report consists of management representations concerning the finances of the City of Farmington Hills Post-Retirement Healthcare Finance Fund. Therefore, responsibility for the accuracy, completeness, reliability, and fairness of the financial data herein, including all disclosures, rests with the administration and management of the City of Farmington Hills Post-Retirement Healthcare Finance Fund. I believe the data presented are accurate in all material aspects, that they are presented in a manner designed to fairly set forth the financial position of the Post-Retirement Healthcare Finance Fund, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Post-Retirement Healthcare Finance Fund's financial affairs have been included. The statements have been audited in accordance with generally accepted auditing standards by Yeo & Yeo, a certified public accounting firm licensed by the State of Michigan.

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

Yeo & Yeo has audited the City of Farmington Hills Post-Retirement Healthcare Finance Fund's financial statements to provide reasonable assurance that the Post-Retirement Healthcare Finance Fund's financial statements for the fiscal year ended June 30, 2020 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Farmington Hills Post-Retirement Healthcare Finance Fund's financial statements for the fiscal year ended June 30, 2020 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

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

Profile of the Post-Retirement Healthcare Finance Fund

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

Acknowledgements

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Thomas C. Skrobola". The signature is written in a cursive style with a long horizontal flourish at the end.

Thomas C. Skrobola, Administrator
City of Farmington Hills Post-Retirement Healthcare Finance Fund



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Independent Auditors' Report

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

We have audited the accompanying statement of fiduciary net position and schedule of employer allocations of the City of Farmington Hills Post-Retirement Healthcare Finance Fund (the "Plan") as of June 30, 2020 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements. We have also audited the total for all entities of the columns titled net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying schedule of OPEB amounts by employer of the City of Farmington Hills Post-Retirement Healthcare Finance Fund as of and for the year ended June 30, 2020, and the related notes.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net position restricted for post-retirement healthcare benefits at June 30, 2020 and changes therein and the schedule of employer allocations and the net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating entities for the City of Farmington Hills Post-Retirement Healthcare Finance Fund as of and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the City of Farmington Hills Post-Retirement Healthcare Finance Fund and do not purport to, and do not, present fairly the financial position of the City of Farmington Hills as of June 30, 2020, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

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

Yeo & Yeo, P.C.

Auburn Hills, Michigan
November 16, 2020

City of Farmington Hills

Post-Retirement Healthcare Finance Fund

Management's Discussion and Analysis

June 30, 2020

The City of Farmington Hills Post-Retirement Healthcare Finance Fund's (the "Fund" or "Plan") 2019-2020 annual report is presented in conformity with the requirements of GASB Statement No. 34. This annual report consists of a discussion and analysis of the Fund's financial performance. It also provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Fund's financial statements.

Financial Highlights

- The Fund's total net position decreased by \$993,638, or approximately 1.3 percent, for the fiscal year ended June 30, 2020. The assets of the Fund are held in trust to meet future benefit obligations.
- The Fund's benefits are funded by contributions from the City of Farmington Hills and active members, as well as by the investment income earned on the Fund's assets. From the schedule of changes in the City net OPEB liability and related ratios found in the required supplemental information (RSI) section of this report, the funded ratio for the Fund was 95.01 percent as of the June 30, 2020 actuarial valuation prepared in accordance with GASB Statement No. 74.
- Total contributions were approximately \$0.8 million for the fiscal year ended June 30, 2020 and approximately \$1.0 million for the year ended June 30, 2019. This is due to a decreased annual required contribution in fiscal year 2019-2020 as calculated by the City's actuary.
- The net investment income was approximately \$1.2 million; this was roughly equivalent to a 1.6% RoR, as compared to the assumed RoR of 7.5%, which would have yielded an additional \$4.6 million of investment income. This lower-than-expected performance was due to global market conditions.
- Total deductions from net position increased by approximately \$227,000, or 8.3 percent, for the year ended June 30, 2020. The increase results primarily higher insurance premium payments in fiscal year 2019-2020.

Using this Annual Report

This annual report consists of six sections: (1) the letter of transmittal, (2) the independent auditor's report (the preceding section), (3) management's discussion and analysis (this section), (4) the basic financial statements, (5) required supplementary information, and (6) other supplementary information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

City of Farmington Hills
Post-Retirement Healthcare Finance Fund
Management's Discussion and Analysis
June 30, 2020

Condensed Financial Information

The table below shows, in a condensed format, the net position as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 1,734,375	\$ 4,956,933
Investments	76,655,603	74,827,872
Receivables	23,672	31,865
Prepays	4,118	-
Total assets	<u>78,417,768</u>	<u>79,816,670</u>
Liabilities		
Accounts payable	76,004	64,750
Due to primary government	328,544	659,415
Due to other funds	-	85,647
Total liabilities	<u>404,548</u>	<u>809,812</u>
Net Position Held in Trust for Benefits	<u>\$78,013,220</u>	<u>\$79,006,858</u>

**City of Farmington Hills
Post-Retirement Healthcare Finance Fund
Management's Discussion and Analysis
June 30, 2020**

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

	<u>2020</u>	<u>2019</u>
Additions		
Contributions - Employee	\$ 230,917	\$ 237,683
Contributions - Employer	559,360	767,528
Investment income net of expenses	<u>1,176,516</u>	<u>3,582,036</u>
Net Additions	<u>1,966,793</u>	<u>4,587,247</u>
Deductions		
Benefit payments	2,920,432	2,657,762
Contributions returned to employees	<u>39,999</u>	<u>75,637</u>
Total Deductions	<u>2,960,431</u>	<u>2,733,399</u>
Net (Decrease) Increase in Net Position	<u><u>\$ (993,638)</u></u>	<u><u>\$ 1,853,848</u></u>

Overall Fund Structure and Objectives

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

Investment Objectives and Policy Guidelines

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

City of Farmington Hills
Post-Retirement Healthcare Finance Fund
Management's Discussion and Analysis
June 30, 2020

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

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

Contacting the Fund's Management

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

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Statement of Fiduciary Net Position
June 30, 2020

Assets

Cash and cash equivalents	\$ 1,734,375
Investments:	
Equities	47,028,067
Fixed income	15,739,576
Other	13,887,960
Receivables	23,672
Prepaid items	<u>4,118</u>
 Total assets	 <u>78,417,768</u>

Liabilities

Accounts payable	76,004
Due to primary government	<u>328,544</u>
 Total liabilities	 <u>404,548</u>

Net Position

Restricted for OPEB benefits	<u>\$ 78,013,220</u>
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City of Farmington Hills Post-Retirement Healthcare Finance Fund
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2020

Additions

Contributions:

Employer	\$	559,360
Employee		<u>230,917</u>

Total contributions		<u>790,277</u>
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Investment earnings

Interest and dividends		1,692,708
Net increase in fair value		<u>67,084</u>

Total investment earnings		1,759,792
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Less investment-related expenses		<u>(583,276)</u>
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Net investment earnings		<u>1,176,516</u>
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Total additions		<u>1,966,793</u>
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Deductions

Benefit payments		2,920,432
Refunds of contributions		<u>39,999</u>

Total deductions		<u>2,960,431</u>
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Change in net position		(993,638)
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Net position - beginning of year		<u>79,006,858</u>
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Net position - end of year	\$	<u><u>78,013,220</u></u>
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City of Farmington Hills Post-Retirement Healthcare Finance Fund
Schedule of OPEB Amounts by Employer
As of June 30, 2020

Entity	Deferred Outflows of Resources					Deferred Inflows of Resources					OPEB Expense		
	Net OPEB Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on OPEB Plan	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan OPEB Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer OPEB Expense
City of Farmington Hills	\$ 3,815,708	\$ -	\$ 4,616,382	\$ -	\$ 1,774	\$ 4,618,156	\$ 1,343,759	\$ 752,963	\$ -	\$ 2,096,722	\$ 1,415,286	\$ 541	\$ 1,415,827
47th District Court	285,291	-	344,886	-	-	344,886	100,373	56,245	1,774	158,392	105,719	(541)	105,178
Total for all entities	\$ 4,100,999	\$ -	\$ 4,961,268	\$ -	\$ 1,774	\$ 4,963,042	\$ 1,444,132	\$ 809,208	\$ 1,774	\$ 2,255,114	\$ 1,521,005	\$ -	\$ 1,521,005

See Accompanying Notes to the Financial Statements

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Schedule of Employer Allocations
June 30, 2020

<u>Employer</u>	<u>Actual Employer Contributions</u>	<u>Employer Allocation Percentage</u>
City of Farmington Hills	\$ 520,481	93.04938%
47th District Court	38,879	6.95062%
	<u>\$ 559,360</u>	<u>100.00%</u>

See Accompanying Notes to the Financial Statements

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Note 1 - Summary of Significant Accounting Policies

Reporting entity

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

Accounting and report principles

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

Basis of accounting

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

Specific balances and transactions

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

Investments – Investments are stated at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investments that do not have an established market value are reported at estimated fair value, as determined by the Plan's management.

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

Note 2 - Plan Description

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

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

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Note 3 - Other Postemployment Benefit Plan

Plan administration

The Board administers the Plan, a cost-sharing multi-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for all general, court, police, and fire plan members and their beneficiaries.

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

Plan membership

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

Inactive plan members or beneficiaries currently receiving benefits	180
Active plan members	204
Total plan members	384

Benefits provided

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

Contributions

Contribution requirements of Plan members are established and may be amended by the Board in accordance with the City ordinance, union contracts, and Plan provisions. The Board establishes contribution rates based on an actuarially determined rate per a funding valuation. For the year ended June 30, 2020, the City’s contribution was \$559,360. Plan members are required to contribute at 1.50 percent of pay.

Note 4 - Investments

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

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

The Plan’s cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial credit risk of bank deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Plan’s deposits may not be refunded to it. The Plan’s investment policy strives to minimize custodial credit risk by prequalifying the financial institutions, broker/dealers, and intermediaries with which the Plan does business. At year-end, the Plan had \$1,484,376 of bank deposits that were uninsured or uncollateralized. The Plan believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Plan evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Concentration of credit risk

The Plan is authorized by the State’s Pension Investment Act to invest in common stocks, real estate, and various other investment vehicles, subject to certain limitations. As of year-end, the Plan had no investments that exceeded 5.00 percent of the Plan’s total portfolio.

Risks and uncertainties

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

Note 5 - Fair Value Measurements

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

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

The Plan has the following recurring fair value measurements as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Equities				
Common stock	\$ 20,639,945	\$ -	\$ -	\$ 20,639,945
Foreign common stock	-	5,915,292	-	5,915,292
Mutual funds	19,671,513	-	-	19,671,513
American depository receipts	-	801,317	-	801,317
Total equities	<u>40,311,458</u>	<u>6,716,609</u>	<u>-</u>	<u>47,028,067</u>
Fixed income				
Mutual fund - corporate bonds	<u>15,739,576</u>	<u>-</u>	<u>-</u>	<u>15,739,576</u>
Other investments				
Private equity funds	<u>-</u>	<u>-</u>	<u>8,225,430</u>	<u>8,225,430</u>
Total investments measured at fair value	<u>\$ 56,051,034</u>	<u>\$ 6,716,609</u>	<u>\$ 8,225,430</u>	70,993,073
Investments measured at net asset value (NAV)				
Pooled equity funds				<u>5,662,530</u>
Total investments				<u>\$ 76,655,603</u>

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

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

The fair value of private equity funds at June 30, 2020 was determined primarily based on Level 3 inputs. The Plan estimates the fair value of these investments using the fund’s fair value, which would be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The private equity funds class includes several private equity funds that invest in infrastructure, energy, shipping, real

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

estate, and corporate debt securities. Total unfunded commitments on the private equity funds are \$4,972,962.

Investments in entities that calculate net asset value per share

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

As of June 30, 2020, the fair value and redemption values of those investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Pinehurst Institutional Fund Ltd	\$ 2,693,869	Quarterly, subject to a 25% investor level gate on March 31, June 30 and September 30.	100 days
Prisa II, LP	1,901,151	None permitted	N/A
Entrust Special Opportunities Fund III Ltd	499,008	Any time after the end of the commitment period	95 days
Brookfield Premier RE Partners LP	331,672	Not before two years after units were issued	90 days
Entrust Capital Diversified Fund Ltd Class X	<u>236,830</u>	None permitted	N/A
Total pooled equity funds	<u>\$ 5,662,530</u>		

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

Note 6 - Investment Policy and Rate of Return

Investment policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that is in compliance with Michigan Public Act 347 of 2012 and manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following is the Board's adopted asset allocation policy as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
US equity	41.00 %
Developed international equity	12.00
Emerging international equity	4.00
Domestic bonds	18.00
International bonds	2.00
Real estate	10.00
Infrastructure	3.00
Private equity	5.00
Hedge funds	3.00
Cash and cash equivalents	<u>2.00</u>
	<u>100.00 %</u>

Rate of return

For the year ended June 30, 2020, the annual money-weighted rate of return on the Plan investments, net of Plan investment expense, was 1.36 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Note 7 - Plan Reserves

In accordance with City ordinance, the following are required to be set aside within the Plan:

Retiree reserve

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

Employee reserve

The employee reserve is held credited as employee contributions are received throughout the year. The Plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 5 percent. For any employee who terminates before vesting in the Plan, the member's balance is returned to them. For those members who stay until retirement, the balance is transferred into the retiree reserve.

Employer reserve

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

The balances of the reserve accounts at June 30, 2020 are as follows:

	<u>Required Reserve</u>		<u>Amount Funded</u>
Retiree reserve	\$ 48,790,879	\$	48,790,879
Employee reserve	5,564,266		5,564,266
Employer reserve	-		23,658,075

The activity within the reserve accounts for the year ended June 30, 2020 is as follows:

	<u>Retiree Reserve Fund</u>	<u>Employee Reserve Fund</u>	<u>Employer Reserve Fund</u>
Beginning reserve balance	\$ 50,633,461	\$ 5,558,389	\$ 22,815,010
Additions			
Employee contributions	-	230,918	-
Employer contributions	-	-	559,360
Investment income	629,633	263,175	283,705
Total additions	<u>629,633</u>	<u>494,093</u>	<u>843,065</u>
Deductions			
Contributions returned to employees	-	(40,000)	-
OPEB and insurance premium payments	(2,920,431)	-	-
Total deductions	<u>(2,920,431)</u>	<u>(40,000)</u>	<u>-</u>
Transfers			
OPEB awarded	448,216	(448,216)	-
Ending reserve balance	<u>\$ 48,790,879</u>	<u>\$ 5,564,266</u>	<u>\$ 23,658,075</u>

Note 8 - Net OPEB Liability of the Plan

The components of the net OPEB liability of the Plan as of June 30, 2020 were as follows:

Total OPEB liability	\$ 82,114,219
Plan fiduciary net position	<u>78,013,220</u>
Net OPEB liability	<u>\$ 4,100,999</u>

Plan fiduciary net position as a percentage of total OPEB liability	95.01%
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The net OPEB liability of \$4,100,999 has been allocated separately to the City and to the 47th District Court. A special funding situation does not exist in accordance with Governmental Accounting Standards Board Statement No. 75 and therefore, the City has not recorded the 47th District Court's proportionate share of the net OPEB liability. The City's proportionate share of the net OPEB liability is \$3,815,708 at June 30, 2020.

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, which used update procedures to roll forward the estimated liability to June 30, 2020. The valuation used the following actuarial assumptions applied to all period included in the measurement:

Inflation	3.00%	
Healthcare cost trend rate	9.00%	Graded down to 3.50%
Investment rate of return	7.00%	Net of OPEB investment expense, including inflation

Mortality rates were based on the Pub-2010 Mortality Tables using scale MP-2018.

Discount rate

The discount rate used to measure the total OPEB liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate.

Projected cash flows

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

Investment rate of return

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

of June 30, 2020 for each major asset class included in the Plan's target asset allocation, as disclosed in Note 6, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
US equity	6.05 %
Developed international equity	7.01
Emerging international equity	9.38
Domestic bonds	2.17
International bonds	1.52
Real estate	5.65
Infrastructure	6.17
Private equity	10.53
Hedge funds	4.20
Cash and cash equivalents	0.00

Sensitivity of the net OPEB liability to changes in discount rate

The following presents the net OPEB liability of the Plan, calculated using the discount rate of 7 percent. The following also reflects what the employers' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage lower (6 percent) or 1 percentage point higher (8 percent) than the current rate.

<u>1 Percent Decrease (6%)</u>	<u>Current Discount Rate (7%)</u>	<u>1 Percent Increase (8%)</u>
\$ 14,236,347	\$ 4,100,999	\$ (4,373,220)

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Notes to the Financial Statements
June 30, 2020

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

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

1 Percent Decrease (8.00%)	Current Healthcare Cost Trend Rate Assumption (9.00%)	1 Percent Increase (10.00%)
\$ (6,278,551)	\$ 4,100,999	\$ 16,691,799

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2020

Fiscal year ended June 30,	2020	2019	2018	2017
Total OPEB Liability				
Service cost	\$ 986,560	\$ 1,054,839	\$ 1,037,884	\$ 1,051,678
Interest on the total OPEB liability	5,959,399	5,253,837	5,054,791	4,851,673
Differences between expected and actual experience	(1,260,805)	(223,581)	(866,514)	(826,276)
Changes in assumptions	(1,056,098)	-	-	-
Other changes	-	6,203,458	-	-
Benefit payments and refunds	<u>(2,960,430)</u>	<u>(2,733,400)</u>	<u>(2,427,987)</u>	<u>(2,295,896)</u>
Net change in total OPEB liability	1,668,626	9,555,153	2,798,174	2,781,179
Total OPEB liability - beginning	<u>80,445,593</u>	<u>70,890,440</u>	<u>68,092,266</u>	<u>65,311,087</u>
Total OPEB liability - ending (a)	<u>\$ 82,114,219</u>	<u>\$ 80,445,593</u>	<u>\$ 70,890,440</u>	<u>\$ 68,092,266</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 559,360	\$ 767,528	\$ 776,762	\$ 1,794,724
Employee contributions	230,918	237,683	249,325	255,459
OPEB Plan net investment income	1,237,857	3,617,170	5,394,607	8,093,512
Benefit payments and refunds	(2,960,430)	(2,733,400)	(2,427,987)	(2,295,896)
OPEB plan administrative expense	(61,343)	(36,900)	(19,643)	(28,778)
Other	<u>-</u>	<u>1,767</u>	<u>3,619</u>	<u>-</u>
Net change in plan fiduciary net position	(993,638)	1,853,848	3,976,683	7,819,021
Plan fiduciary net position - beginning	<u>79,006,858</u>	<u>77,153,010</u>	<u>73,176,327</u>	<u>65,357,306</u>
Plan fiduciary net position - ending (b)	<u>\$ 78,013,220</u>	<u>\$ 79,006,858</u>	<u>\$ 77,153,010</u>	<u>\$ 73,176,327</u>
Net OPEB liability (asset) (a-b)	<u>\$ 4,100,999</u>	<u>\$ 1,438,735</u>	<u>\$ (6,262,570)</u>	<u>\$ (5,084,061)</u>
Plan fiduciary net position as a percentage of total OPEB liability	95.01%	98.21%	108.83%	107.47%

Note: GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retroactive implementation. Contributions are not based on a measure of payroll, therefore per GASB Statement No. 85, covered payroll is not presented. Data will be added as information is available until 10 years of such data is available.

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Required Supplementary Information
Schedule of Employers' Contributions
June 30, 2020

Fiscal Year Ended	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2011	\$ 3,186,426	\$ 3,186,426	\$ -	N/A	N/A
6/30/2012	3,955,250	3,311,151	644,099	N/A	N/A
6/30/2013	4,161,881	3,375,239	786,642	N/A	N/A
6/30/2014	2,892,858	4,292,810	(1,399,952)	N/A	N/A
6/30/2015	2,890,395	2,890,875	(480)	N/A	N/A
6/30/2016	1,808,068	1,808,068	-	N/A	N/A
6/30/2017	1,794,724	1,794,724	-	N/A	N/A
6/30/2018	776,762	776,762	-	N/A	N/A
6/30/2019	767,528	767,528	-	N/A	N/A
6/30/2020	559,360	559,360	-	N/A	N/A

Notes: Actuarially determined contribution amounts are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported. Contributions are not based on a measure of payroll, therefore per GASB Statement No. 85, covered payroll is not presented.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Healthcare cost trend rates	Initial trend of 9.00% gradually decreasing to an ultimate trend rate of 3.50% in year 10
Investment rate of return	7.50%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB

City of Farmington Hills Post-Retirement Healthcare Finance Fund
Required Supplementary Information
Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return % *
2011	19.40%
2012	(0.10)%
2013	9.30%
2014	16.20%
2015	(0.50)%
2016	(1.70)%
2017	11.90%
2018	7.16%
2019	3.66%
2020	1.36%

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