

# **City of Trenton, Michigan**

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## **Financial Report with Supplemental Information June 30, 2016**

# City of Trenton, Michigan

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# City of Trenton, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Trenton, 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 fund information of the City of Trenton, Michigan (the "City") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City of Trenton, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

To the Honorable Mayor and City Council  
City of Trenton, Michigan

### ***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 fund information of the City of Trenton, Michigan as of June 30, 2016 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, changes in the City net pension liability and related ratios, and City contributions, retiree healthcare system schedules of funding progress and employer contributions, and the budgetary comparison schedule, 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 opinions on the financial statements that collectively comprise the City of Trenton, 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.

To the Honorable Mayor and City Council  
City of Trenton, Michigan

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of the City of Trenton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Trenton, Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 14, 2016

# City of Trenton, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2016:

- Property taxes are the City's largest source of revenue. The City's total taxable value increased approximately 1.46 percent. The total millage rate was decreased by 1.0 mills for a total millage of 24.7506.
- The City has historically been conservative and continuously monitors discretionary spending, which resulted in not appropriating General Fund fund balance for operating costs. The City's General Fund budgeted to use \$170,000, but only used \$31,000.
- Total net position related to the City's governmental activities decreased by approximately (\$4,961,000) and business-type activities increased by approximately \$1,681,000.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They indicate how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and other assets	\$ 17,808	\$ 17,510	\$ 7,220	\$ 8,460	\$ 25,028	\$ 25,970
Capital assets	23,297	20,531	50,122	49,820	73,419	70,351
Other noncurrent assets	<u>1,325</u>	<u>1,495</u>	<u>-</u>	<u>-</u>	<u>1,325</u>	<u>1,495</u>
Total assets	42,430	39,536	57,342	58,280	99,772	97,816
<b>Deferred Outflows of Resources -</b>						
Deferred charges being amortized	8,474	3,850	698	410	9,172	4,260
<b>Liabilities</b>						
Total deferred inflows of resources	311	-	-	-	311	-
Current liabilities	3,308	2,953	3,841	4,081	7,149	7,034
Long-term liabilities	<u>51,654</u>	<u>39,840</u>	<u>22,398</u>	<u>24,489</u>	<u>74,052</u>	<u>64,329</u>
Total liabilities	<u>55,273</u>	<u>42,793</u>	<u>26,239</u>	<u>28,570</u>	<u>81,512</u>	<u>71,363</u>
<b>Net Position</b>						
Net investment in capital assets	21,057	19,754	28,257	25,221	49,314	44,975
Restricted	1,617	2,289	1,597	3,993	3,214	6,282
Unrestricted	<u>(27,043)</u>	<u>(21,450)</u>	<u>1,947</u>	<u>906</u>	<u>(25,096)</u>	<u>(20,544)</u>
Total net position	<u>\$ (4,369)</u>	<u>\$ 593</u>	<u>\$ 31,801</u>	<u>\$ 30,120</u>	<u>\$ 27,432</u>	<u>\$ 30,713</u>

The City experienced a decrease in the net position of its governmental activities (\$4,961,000) and an increase in the net position of its business-type activities (\$1,681,000) for the fiscal year ended June 30, 2016.

Governmental activities were significantly impacted in the current year by an increase of \$3,007,000 in pension expense. This increase was driven by lower than anticipated investment earnings and a longer than anticipated lifespan of retirees - factors that have affected pension systems nationwide.

Business-type activities were also impacted by an increase in pension expense. However, rates have been set to provide sufficient revenue for operations, only with a minor increase in net position.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2016 and 2015 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 4,178	\$ 4,128	\$ 9,299	\$ 8,745	\$ 13,477	\$ 12,873
Operating grants	1,632	1,623	-	-	1,632	1,623
Capital grants and contributions	125	224	-	-	125	224
General revenue:					-	-
Property taxes	14,595	15,103	2,535	2,565	17,130	17,668
State-shared revenue	2,041	2,102	-	-	2,041	2,102
Investment earnings	95	63	40	31	135	94
Other revenue	824	138	251	251	1,075	389
Transfers and other (expense) revenue	(190)	(303)	190	303	-	-
Total revenue	23,300	23,078	12,315	11,895	35,615	34,973
<b>Expenses</b>						
General government	6,800	4,428	-	-	6,800	4,428
Public safety	12,162	12,005	-	-	12,162	12,005
Public works	5,627	5,186	-	-	5,627	5,186
Community and economic development	467	187	-	-	467	187
Recreation and cultural	3,145	2,740	-	-	3,145	2,740
Interest on long-term debt	60	3	-	-	60	3
Enterprise	-	-	10,634	9,596	10,634	9,596
Total program expenses	28,261	24,549	10,634	9,596	38,895	34,145
<b>Change in Net Position</b>	<b>\$ (4,961)</b>	<b>\$ (1,471)</b>	<b>\$ 1,681</b>	<b>\$ 2,299</b>	<b>\$ (3,280)</b>	<b>\$ 828</b>

### Governmental Activities

The City's governmental revenue increased by \$222,000 in the current year. The City's governmental expenses increased \$3,712,000 or 15 percent. This is primarily due to an increase in the cost of pension benefits. As noted above, this increase was driven by lower than anticipated investment earnings and a longer than anticipated lifespan of retirees.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Kennedy Recreation Center. Water provided to residential, commercial, and industrial users is purchased from the Great Lakes Water Authority. Sewage treatment is provided through a City-owned and operated sewage treatment plant. The Kennedy Recreation Center operates a three-sheet ice rink and concession stand.

The combined water and sewer rate was increased \$1.40 or 14.3 percent from \$9.81 to \$11.21 for the fiscal year 2015-2016. Utility consumption was up approximately 7.0 percent from the previous year, chiefly due to dry seasonal weather conditions which impact consumption. Water loss was approximately at 8.8 percent in 2015-2016, as a result of numerous water main breaks precipitated by prolonged winter weather-related conditions.

The approved combined rates above included \$1.15 for capital expenditures. The revenue for capital is reported in capital contributions, rather than charges for services, due to its restrictive nature.

Total operating expenses in the Water and Sewer Fund increased by \$993,000 from the previous year. This was due primarily to a \$656,000 increase in water and sewage treatment purchases to meet increased demand resulting from an unusually dry summer. The remaining increase was due to increased pension expense as a result of a revised actuarial valuation.

### The City's Funds

An analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for 2015-2016 include the General Fund, the Kennedy Recreation Center Fund, and the Water and Sewer Fund.

### General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The most significant expenditures are for public safety, which incurred expenses of \$8,487,000 or 45.1 percent of General Fund expenditures in fiscal year 2015-2016, exclusive of other financing sources and uses. Public works is the second most significant expenditure category at \$2,504,000 or 13.3 percent of General Fund expenditures, exclusive of other financing sources and uses. These services are primarily supported by property taxes.

The General Fund used \$31,380 of fund balance in fiscal year 2015-2016. The amended budget included a \$170,000 use of fund balance. This budgeted use of fund balance was exclusively for capital improvements to the City's facilities and infrastructure. The amended budgeted expenditures of \$21,809,000 were underspent by \$343,000. Due to careful spending, cost containments were realized by several departments.

# **City of Trenton, Michigan**

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

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

As of June 30, 2016, the City had approximately \$22.0 million in outstanding debt. Of this debt, \$16.9 million is for the sewer improvements which were completed several years ago. The sewer improvement debt is supported by a direct millage.

Not included in the aforementioned debt is an additional \$76.7 million unfunded actuarially valued liability for other postemployment benefits (OPEB). This liability represents the cost of benefits for health care for currently retired and future retirees.

The City had \$73.4 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, water and sewer lines, roads, sidewalks, vehicles, and equipment.

Capital improvements completed this year include an additional \$162,000 energy upgrade project at the City's recreation center, and \$2,440,000 in improvements at the waste water treatment plant. Total investment in the motor pool was \$2,781,000, which includes a \$607,000 fire truck, \$445,000 fire pumper, and three garbage trucks totaling \$743,000.

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

The City has experienced an increase in residential and commercial property values of 6 percent and 7 percent, respectively. Industrial real property values have decreased by 7 percent. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than inflation.

During the year, one of the City's largest tax payers, DTE Energy, announced that the DTE Energy Trenton Channel Power Plant will close between 2020 and 2023. The City is currently assessing the financial impact of this announcement.

The 2015-2016 General Fund operating budget was decreased \$560,387 or 2.86 percent from \$19,619,627 to \$19,059,240. The City's overall millage rate decreased 1.0 mill to 24.7506 mills.

As of July 1, 2016, the water and sewer rate will increase \$.80, from \$11.21 to \$12.01 per thousand gallons of water purchased. This is a 7.2 percent increase from the previous year. The utility rate supports the operations, maintenance, and upgrades to the city water and sewer lines and the wastewater treatment plant.

The City continues to seek private investment to redevelop a shuttered steel mill to bolster the City's finances. A blighted former hospital site is expected to be redeveloped, which will add value to the downtown area of the City.

# **City of Trenton, Michigan**

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

The City remains vigilant of the difficult economic circumstances that continue to adversely affect the City's finances. The City continues to encourage new development and to search for alternative sources of new revenue, as well as cost reductions to balance future budgets.

### **Contacting the City's Management**

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

# City of Trenton, Michigan

## Statement of Net Position June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 13,236,137	\$ 6,474,104	\$ 19,710,241	\$ 807,509
Receivables:				
Taxes	46,509	260,424	306,933	-
Customers	-	2,106,876	2,106,876	-
Other	407,521	-	407,521	-
Due from other governmental units	858,043	-	858,043	-
Advance to component units (Note 5)	1,325,000	-	1,325,000	-
Internal balances (Note 5)	2,103,064	(2,103,064)	-	-
Inventory	364,162	209,727	573,889	-
Prepaid expenses and other assets	248,199	1,000	249,199	-
Investment in joint ventures (Note 14)	544,202	-	544,202	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	2,525,620	21,377	2,546,997	-
Assets subject to depreciation	20,771,440	50,100,732	70,872,172	2,469,156
Total assets	42,429,897	57,071,176	99,501,073	3,276,665
<b>Deferred Outflows of Resources - Pensions</b>	8,474,740	697,620	9,172,360	-
<b>Liabilities</b>				
Accounts payable	923,994	623,165	1,547,159	-
Accrued liabilities and other	998,334	217,315	1,215,649	-
Noncurrent liabilities:				
Due within one year (Note 6):				
Compensated absences (Note 6)	904,039	141,490	1,045,529	-
Current portion of advance from primary government (Note 5)	-	-	-	170,000
Current portion of long-term debt (Note 6)	482,861	2,859,000	3,341,861	-
Due in more than one year:				
Compensated absences (Note 6)	938,663	190,081	1,128,744	-
Advance from primary government (Note 5)	-	-	-	1,155,000
Net OPEB obligation (Note 7)	13,389,369	-	13,389,369	-
Net pension liability (Notes 9 and 10)	35,568,817	5,033,541	40,602,358	-
Long-term debt (Note 6)	1,757,207	16,903,936	18,661,143	-
Total liabilities	54,963,284	25,968,528	80,931,812	1,325,000
<b>Deferred Inflows of Resources - Pensions</b>	310,208	-	310,208	-
<b>Net Position</b>				
Net investment in capital assets	21,056,992	28,256,109	49,313,101	1,209,156
Restricted for:				
Major and local streets	313,897	-	313,897	-
Grant operations	636,061	-	636,061	-
Library	103,453	-	103,453	-
S.I.N.C. operations	465,791	-	465,791	-
Debt	-	70,186	70,186	-
Capital charges	-	1,526,832	1,526,832	-
Refuse	97,570	-	97,570	-
Unrestricted	(27,042,619)	1,947,141	(25,095,478)	742,509
Total net position	\$ (4,368,855)	\$ 31,800,268	\$ 27,431,413	\$ 1,951,665

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

# City of Trenton, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,800,411	\$ 1,290,057	\$ 19,265	\$ -
Public safety	12,161,858	1,531,332	273,906	19,342
Public works	5,627,391	281,169	1,100,579	-
Special projects	466,541	-	236,773	31,841
Recreation and culture	3,144,718	1,075,062	1,125	73,649
Interest on long-term debt	59,744	-	-	-
Total governmental activities	28,260,663	4,177,620	1,631,648	124,832
Business-type activities:				
Water and sewer	8,830,642	7,853,073	-	-
Recreation operation	1,801,915	1,445,800	-	-
Total business-type activities	10,632,557	9,298,873	-	-
Total primary government	<u>\$ 38,893,220</u>	<u>\$ 13,476,493</u>	<u>\$ 1,631,648</u>	<u>\$ 124,832</u>
Component units	<u>\$ 407,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Interest income				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
<b>Transfers</b>				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

**Statement of Activities  
Year Ended June 30, 2016**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (5,491,089)	\$ -	\$ (5,491,089)	\$ -
(10,337,278)	-	(10,337,278)	-
(4,245,643)	-	(4,245,643)	-
(197,927)	-	(197,927)	-
(1,994,882)	-	(1,994,882)	-
(59,744)	-	(59,744)	-
(22,326,563)	-	(22,326,563)	-
-	(977,569)	(977,569)	-
-	(356,115)	(356,115)	-
-	(1,333,684)	(1,333,684)	-
(22,326,563)	(1,333,684)	(23,660,247)	-
-	-	-	(407,708)
14,595,261	2,534,587	17,129,848	462,304
2,040,641	-	2,040,641	-
94,557	40,095	134,652	9,756
734,371	250,000	984,371	5,196
89,889	-	89,889	-
17,554,719	2,824,682	20,379,401	477,256
(190,000)	190,000	-	-
(4,961,844)	1,680,998	(3,280,846)	69,548
592,989	30,119,270	30,712,259	1,882,117
<b>\$ (4,368,855)</b>	<b>\$ 31,800,268</b>	<b>\$ 27,431,413</b>	<b>\$ 1,951,665</b>

# City of Trenton, Michigan

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 3,566,292	\$ 3,547,763	\$ 7,114,055
Receivables:			
Property taxes receivable	45,244	1,265	46,509
Other receivables	325,220	74,379	399,599
Due from other governmental units	330,463	527,580	858,043
Advance to component units	1,325,000	-	1,325,000
Due from other funds	108,915	-	108,915
Advance to other funds	2,103,064	-	2,103,064
Inventory	125,689	-	125,689
Prepaid expenses and other assets	18,126	-	18,126
<b>Total assets</b>	<b>\$ 7,948,013</b>	<b>\$ 4,150,987</b>	<b>\$12,099,000</b>
<b>Liabilities</b>			
Accounts payable	\$ 408,871	\$ 283,295	\$ 692,166
Due to other funds	-	108,915	108,915
Accrued liabilities and other	377,895	23,294	401,189
<b>Total liabilities</b>	<b>786,766</b>	<b>415,504</b>	<b>1,202,270</b>
<b>Deferred Inflows of Resources - Unavailable revenue</b>	<b>36,275</b>	<b>132,561</b>	<b>168,836</b>
<b>Fund Balances</b>			
Nonspendable:			
Inventory	125,689	-	125,689
Prepays	18,126	-	18,126
Long-term advance	3,428,064	-	3,428,064
Restricted:			
Roads	-	313,897	313,897
Grant operations	-	503,500	503,500
S.I.N.C. operations	-	465,791	465,791
Refuse	97,570	-	97,570
Library capital	-	103,453	103,453
Committed:			
Compensated absence liability	862,022	-	862,022
Special projects	-	598,018	598,018
Library	-	559,839	559,839
Assigned:			
Equipment	600,000	-	600,000
Capital projects	-	1,058,424	1,058,424
Postretirement benefits	800,000	-	800,000
Defined benefit pension	1,000,000	-	1,000,000
Unassigned	193,501	-	193,501
<b>Total fund balances</b>	<b>7,124,972</b>	<b>3,602,922</b>	<b>10,727,894</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 7,948,013</b>	<b>\$ 4,150,987</b>	<b>\$12,099,000</b>

# City of Trenton, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2016

<b>Fund Balance Reported in Governmental Funds</b>	\$ 10,727,894
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 (excludes ISF assets)	19,761,605
Investments in joint ventures are not financial resources and are not reported in the funds	544,202
Grants receivable that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized as revenue in the funds	168,836
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,240,068)
Accrued interest is not due and payable in the current period and is not reported in the funds	(27,165)
Employee compensated absences 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 (excludes ISF)	(1,775,113)
Other liabilities are not due and payable in the current period and are not reported in the funds	(59,000)
Net other postemployment benefit liability not recorded in the modified accrual statements	(13,389,369)
Net pension liability is not due and payable in the current period and is not reported in the funds	(35,568,817)
Deferred outflows related to pensions are not a financial resource and are not reported in the funds	8,474,740
Deferred inflows related to pensions are not due and payable in the current period and are not reported in the funds	(310,208)
Internal service funds are included as part of governmental activities	<u>9,323,608</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ (4,368,855)</u></b>

# City of Trenton, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 14,213,997	\$ 349,019	\$ 14,563,016
Licenses and permits	432,645	-	432,645
Federal grants	-	590,136	590,136
State sources	1,936,069	1,430,435	3,366,504
Charges for services	1,547,929	548,520	2,096,449
Fines and forfeitures	483,780	99,356	583,136
Interest income	71,320	23,237	94,557
Other	1,214,951	390,929	1,605,880
Total revenue	<u>19,900,691</u>	<u>3,431,632</u>	<u>23,332,323</u>
<b>Expenditures</b>			
General government	3,217,845	-	3,217,845
Public safety	9,797,541	729,725	10,527,266
Public works	3,869,634	1,946,449	5,816,083
Retiree benefits and other	3,774,346	-	3,774,346
Special projects	-	722,453	722,453
Recreation and culture	768,069	1,109,712	1,877,781
Interest expense	137,130	-	137,130
Total expenditures	<u>21,564,565</u>	<u>4,508,339</u>	<u>26,072,904</u>
<b>Excess of Expenditures Over Revenue</b>	(1,663,874)	(1,076,707)	(2,740,581)
<b>Other Financing Sources (Uses)</b>			
Face value of debt issue (Note 6)	2,240,068	-	2,240,068
Proceeds from sale of capital assets	550,000	-	550,000
Transfers in	-	368,979	368,979
Transfers out	(398,979)	(160,000)	(558,979)
Payment to bond refunding escrow agent	(702,000)	-	(702,000)
Total other financing sources	<u>1,689,089</u>	<u>208,979</u>	<u>1,898,068</u>
<b>Net Change in Fund Balances</b>	25,215	(867,728)	(842,513)
<b>Fund Balances - Beginning of year</b>	<u>7,099,757</u>	<u>4,470,650</u>	<u>11,570,407</u>
<b>Fund Balances - End of year</b>	<u>\$ 7,124,972</u>	<u>\$ 3,602,922</u>	<u>\$ 10,727,894</u>

# City of Trenton, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016**

**Net Change in Fund Balances - Total Governmental Funds** \$ (842,513)

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 (excludes ISF activity):

Capital outlay	2,214,640
Depreciation expense	(1,327,641)
Net book value of assets disposed of	(460,111)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	34,365
---	--------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	809,000
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Proceeds of bond issuance recorded as other financing sources in the fund statements, but not in the statement of activities	(2,240,068)
--	-------------

Amortization on bond refunding loss is recorded in the statement of activities	(31,939)
--	----------

Change in net other postemployment benefits liability	(2,221,078)
---	-------------

Change in accrued interest payable and other	(18,806)
--	----------

Increase in accumulated employee sick and vacation pay is recorded in the statement of activities	(40,231)
---	----------

Net change in investment in joint venture reported in the statement of activities does not provide current financial resources and is not reported as a revenue in the governmental funds.	(14,350)
--	----------

Decrease in property tax claims is recorded when incurred in the statement of activities	32,245
--	--------

Increase in net pension expense reported in the statement of activities does not require the use of current resources and therefore is not reported in the fund until it becomes due for payment	(8,428,082)
--	-------------

Change in deferred outflows related to pensions is reported in the statement of activities	4,655,210
--	-----------

Change in deferred inflows related to pensions is reported in the statement of activities	(310,208)
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Internal service funds are included as part of governmental activities	<u>3,227,723</u>
--	------------------

**Change in Net Position of Governmental Activities** **\$ (4,961,844)**

# City of Trenton, Michigan

## Proprietary Funds Statement of Net Position June 30, 2016

	Major Business-type Activities			Governmental
	Enterprise -	Enterprise -	Total	Activities
	Water and Sewer	Recreation	Enterprise Funds	Internal Service Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 6,469,754	\$ 4,350	\$ 6,474,104	\$ 6,122,082
Receivables:				
Property taxes receivable	260,424	-	260,424	-
Customers	2,031,449	75,427	2,106,876	-
Other receivables	-	-	-	7,922
Inventory	202,955	6,772	209,727	238,473
Prepaid expenses and other assets	1,000	-	1,000	230,073
Total current assets	8,965,582	86,549	9,052,131	6,598,550
Noncurrent assets:				
Capital assets (Note 4):				
Assets not subject to depreciation	21,377	-	21,377	-
Assets subject to depreciation	45,189,760	4,910,972	50,100,732	3,535,455
Total assets	54,176,719	4,997,521	59,174,240	10,134,005
<b>Deferred Outflows of Resources - Pension</b>	697,620	-	697,620	-
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	565,754	57,411	623,165	231,828
Accrued liabilities and other	196,833	20,482	217,315	510,980
Compensated absences	138,761	2,729	141,490	23,274
Current portion of long-term advance	-	270,507	270,507	-
Current portion of long-term debt	2,395,000	464,000	2,859,000	-
Total current liabilities	3,296,348	815,129	4,111,477	766,082
Noncurrent liabilities:				
Advances from other funds	-	1,832,557	1,832,557	-
Compensated absences	185,881	4,200	190,081	44,315
Net pension liability	5,033,541	-	5,033,541	-
Long-term debt	14,523,936	2,380,000	16,903,936	-
Total noncurrent liabilities	19,743,358	4,216,757	23,960,115	44,315
Total liabilities	23,039,706	5,031,886	28,071,592	810,397
<b>Net Position</b>				
Net investment in capital assets	28,292,201	(36,092)	28,256,109	3,535,455
Restricted:				
Debt	70,186	-	70,186	-
Capital charges	1,526,832	-	1,526,832	-
Unrestricted	1,945,414	1,727	1,947,141	5,788,153
Total net position	<b>\$ 31,834,633</b>	<b>\$ (34,365)</b>	<b>\$ 31,800,268</b>	<b>\$ 9,323,608</b>

# City of Trenton, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenue</b>				
Sale of water	\$ 3,047,086	\$ -	\$ 3,047,086	\$ -
Sewage disposal charges	3,885,010	-	3,885,010	-
Charges for services	-	1,445,800	1,445,800	6,099,037
Other	206,040	-	206,040	141,648
Total operating revenue	7,138,136	1,445,800	8,583,936	6,240,685
<b>Operating Expenses</b>				
Cost of water	1,932,279	-	1,932,279	-
Cost of sewage disposal	3,067,849	-	3,067,849	-
Cost of insurance claims	-	-	-	4,471,942
Transportation and distribution	1,397,444	-	1,397,444	-
Cost of recreation activity	-	944,161	944,161	-
Operating costs	-	-	-	918,041
Depreciation	2,004,162	615,260	2,619,422	401,796
Total operating expenses	8,401,734	1,559,421	9,961,155	5,791,779
<b>Operating (Loss) Income</b>	(1,263,598)	(113,621)	(1,377,219)	448,906
<b>Nonoperating Revenue (Expenses)</b>				
Property tax revenue	2,534,587	-	2,534,587	-
Investment income	40,095	-	40,095	33,982
Interest expense	(428,908)	(206,494)	(635,402)	-
Other nonoperating expenses	-	(36,000)	(36,000)	-
Loss on sale of assets	-	-	-	(36,298)
Customer capital charges	714,937	-	714,937	-
Contribution from Downtown Development Authority (DDA)	250,000	-	250,000	-
Total nonoperating revenue (expenses)	3,110,711	(242,494)	2,868,217	(2,316)
<b>Income (Loss) - Before capital contributions and transfers in</b>	1,847,113	(356,115)	1,490,998	446,590
<b>Capital Contributions</b>	-	-	-	2,781,133
<b>Transfers in</b>	-	190,000	190,000	-
<b>Change in Net Position</b>	1,847,113	(166,115)	1,680,998	3,227,723
<b>Net Position - Beginning of year</b>	29,987,520	131,750	30,119,270	6,095,885
<b>Net Position - End of year</b>	<u>\$ 31,834,633</u>	<u>\$ (34,365)</u>	<u>\$ 31,800,268</u>	<u>\$ 9,323,608</u>

# City of Trenton, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

	Major Business-type Activities			Governmental
	Enterprise -		Total	Activities
	Water and Sewer	Enterprise - Recreation	Enterprise Funds	Internal Service Funds
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 6,871,647	\$ 1,403,684	\$ 8,275,331	\$ 6,375,522
Payments to suppliers	(3,571,163)	(794,264)	(4,365,427)	(596,813)
Payments to employees	(2,770,569)	(209,236)	(2,979,805)	(338,641)
Claims paid	-	-	-	(4,513,734)
Net cash provided by operating activities	529,915	400,184	930,099	926,334
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers from other funds	-	190,000	190,000	-
Repayments of loans to other funds	-	(271,007)	(271,007)	-
Net cash used in noncapital financing activities	-	(81,007)	(81,007)	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Issuance of bonds	-	2,884,000	2,884,000	-
Receipt of capital charges	714,937	-	714,937	-
Contribution from DDA	250,000	-	250,000	-
Proceeds from sales of capital assets	-	-	-	3,454
Property taxes	2,534,587	-	2,534,587	-
Purchase of capital assets	(2,736,930)	(184,982)	(2,921,912)	-
Principal and interest paid on capital debt	(2,773,909)	(3,335,987)	(6,109,896)	-
Debt service charge	-	(36,000)	(36,000)	-
Net cash (used in) provided by capital and related financing activities	(2,011,315)	(672,969)	(2,684,284)	3,454
<b>Cash Flows from Investing Activities</b> - Interest received on investments	40,095	-	40,095	33,982
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(1,441,305)	(353,792)	(1,795,097)	963,770
<b>Cash and Cash Equivalents</b> - Beginning of year	7,911,059	358,142	8,269,201	5,158,312
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 6,469,754</u>	<u>\$ 4,350</u>	<u>\$ 6,474,104</u>	<u>\$ 6,122,082</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>				
Operating (loss) income	\$ (1,263,598)	\$ (113,621)	\$ (1,377,219)	\$ 448,906
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	2,004,162	615,260	2,619,422	401,796
Changes in assets and liabilities:				
Receivables	(266,489)	(42,116)	(308,605)	134,837
Inventories	20,045	5,309	25,354	(11,795)
Prepaid and other assets	(415,764)	127,753	(288,011)	(7,071)
Accounts payable	(162,051)	(167,451)	(329,502)	(34,236)
Accrued and other liabilities	613,610	(24,950)	588,660	(6,103)
Net cash provided by operating activities	<u>\$ 529,915</u>	<u>\$ 400,184</u>	<u>\$ 930,099</u>	<u>\$ 926,334</u>
<b>Noncash Transactions</b> - Capital contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,781,133</u>

Capital contributions were \$2,781,133 in the internal service funds for the year ended June 30, 2016.

# City of Trenton, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Pension and Retiree Health Care Trust Funds	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,668,491	\$ 50,804
Investments:		
U.S. government securities	1,896,424	-
Stocks	33,478,259	-
Corporate bonds	229,734	-
Other - Fixed income	160,044	-
Mutual funds - Fixed income	6,903,949	-
Other investments	12,344,678	-
Receivables	21,420	-
Total assets	56,702,999	<b>\$ 50,804</b>
<b>Liabilities</b>		
Accounts payable	-	\$ 2,500
Accrued liabilities and other	-	7,204
Unearned revenue	-	33,000
Cash bonds and deposits	-	8,100
Total liabilities	-	<b>\$ 50,804</b>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 56,702,999</b>	

# City of Trenton, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Position - Pension and Retiree Health Care Trust Funds Year Ended June 30, 2016

	Pension and Retiree Health Care Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,001,454
Net decrease in fair value of investments	(1,951,120)
Investment-related expenses	(218,199)
Contributions:	
Employer	4,399,934
Employee	242,042
Total contributions	<u>4,641,976</u>
Total additions	3,474,111
<b>Deductions</b>	
Benefit payments	7,342,955
Administrative expenses	117,418
Total deductions	<u>7,460,373</u>
<b>Net Decrease in Net Position Held in Trust</b>	(3,986,262)
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	<u>60,689,261</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<u><b>\$ 56,702,999</b></u>

# City of Trenton, Michigan

## Component Units Statement of Net Position June 30, 2016

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 743,970	\$ 63,539	\$ 807,509
Capital assets - Assets subject to depreciation (Note 4)	2,469,156	-	2,469,156
Total assets	3,213,126	63,539	3,276,665
<b>Liabilities</b>			
Noncurrent liabilities:			
Due within one year - Current portion of advance from primary government (Note 5)	170,000	-	170,000
Due in more than one year - Advance from primary government (Note 5)	1,090,000	65,000	1,155,000
Total liabilities	1,260,000	65,000	1,325,000
<b>Net Position</b>			
Net investment in capital assets	1,209,156	-	1,209,156
Unrestricted	743,970	(1,461)	742,509
Total net position	<b>\$ 1,953,126</b>	<b>\$ (1,461)</b>	<b>\$ 1,951,665</b>

# City of Trenton, Michigan

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority:				
Special projects	\$ 405,753	\$ -	\$ -	\$ -
Interest expense	1,955	-	-	-
Total Downtown Development Authority	407,708	-	-	-
Brownfield Redevelopment Authority	-	-	-	-
Total governmental activities	<b>\$ 407,708</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenue:				
Property taxes				
Interest income				
Other miscellaneous income				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

**Component Units  
Statement of Activities  
Year Ended June 30, 2016**

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (405,753)	\$ -	\$ (405,753)
(1,955)	-	(1,955)
(407,708)	-	(407,708)
-	-	-
(407,708)	-	(407,708)
462,304	-	462,304
5,389	4,367	9,756
5,196	-	5,196
472,889	4,367	477,256
65,181	4,367	69,548
1,887,945	(5,828)	1,882,117
<b>\$ 1,953,126</b>	<b>\$ (1,461)</b>	<b>\$ 1,951,665</b>

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

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

#### **Reporting Entity**

The City of Trenton, Michigan is governed by an elected six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

**Discretely Presented Component Units** - The following component units are reported within the component unit column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

**Downtown Development Authority** - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA's governing body, which consists of the mayor and eight individuals appointed by the mayor, is subject to approval by the City Council.

**Brownfield Redevelopment Authority** - The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Brownfield Redevelopment Authority's governing body consists of the mayor and four individuals appointed by the mayor, subject to approval by the City Council.

**Jointly Governed Organization** - The City is a participant in a jointly governed organization as discussed in Note 14.

#### **Major Taxpayers**

Approximately 21 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 23 percent of the total water, sewer, and industrial charge revenue is from three businesses located in the City.

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

During the year, one of the City's largest taxpayers, DTE Energy, announced that the DTE Energy Trenton Channel Power Plant will close between 2020 and 2023. The City is currently assessing the financial impact of this announcement.

#### **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.

#### **Report Presentation**

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

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

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

#### 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 four broad fund types:

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the General Fund as a “major” governmental fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Proprietary funds** include enterprise funds (which provide goods or services to users in exchange for charges or fees). The City reports the following funds as “major” enterprise funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the recreation center excluding swimming pool operations.

**Internal service funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.

**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 Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.
- The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

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

Interfund activity: During the course of operations, the government 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 Water and Sewer Fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, 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, property taxes, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources."

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

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

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

Approximately \$12,300,000 or 25 percent of the Firemen and Policemen Retirement System's net position as of June 30, 2016 is not publicly traded and therefore does not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value 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.

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

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

Capital Asset Class	Lives (years)
Roads and sidewalks	20-30
Water and sewer distribution systems	50-66
Water and sewer treatment facilities	50
Machinery, equipment, and furniture	7-20
Buildings and building improvements	15-50

**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 is generally used to liquidate governmental long-term debt.

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. The deferred outflows of resources is related to pensions.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. They are deferred inflows of resources related to unavailable revenue and deferred inflows of resources related to pensions. The unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from grants sources and other revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, 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 ordinance) to remove or revise the limitation.

### Note I - Summary of 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 Council has by resolution authorized the finance director to assign fund balance. The 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

Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the City totaled \$654 million (a portion of which is abated and a portion of which is captured by the DDA and BRA). The Firemen and Policemen Retirement System, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied exceed actual costs, fund balance/net position will be reserved. Taxes were levied as follows (excludes abated and captured value):

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	16.4624	\$ 11,276,000
Firemen and Policemen Retirement System	2.0858	1,429,000
Solid waste	1.9689	1,349,000
Library operating	0.5179	355,000
Other tax collection and trailer park fees	0.0000	154,000
Sewer debt	3.7156	2,545,000
Total		<u>\$ 17,108,000</u>

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

**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 and Water and Sewer Fund.

**Other Postemployment Benefit Costs** - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The net OPEB obligation has generally been liquidated from the funds from which the individual salaries are paid, which are the General Fund and Water and Sewer Fund.

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund 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 and Sewer Fund, primarily) are used to liquidate obligation.

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds is charges to customers for sales and services. 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.

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

**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 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The annual budget is prepared by the city management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2016 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budgetary comparison schedule (non-GAAP budgetary basis) for the General Fund is included in the required supplemental information and is presented in greater detail than the accounting used in preparing the adopted budget. The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The adopted budget for the nonmajor special revenue funds can be obtained from city hall.

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (603,257)
Building permit revenue	410,476
Related expenses - Direct costs	<u>506,043</u>
Current year shortfall	<u>(95,567)</u>
Excess costs - End of year	<u>\$ (698,824)</u>

**Fund Deficits** - The Brownfield Redevelopment Authority component unit had a deficit at June 30, 2016 totaling (\$1,461). The deficit will be funded primarily by future property tax collections or a transfer from another fund at the City.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The 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.

The Police and Fire Retirement System and Retiree Health Care Trust Fund are also authorized by Michigan Public Act 347 of 2012 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, 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 has designated five banks for the deposits of funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended). The City's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$8,870,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$807,509 of bank deposits that were uninsured and uncollateralized. 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.

**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 bond maturities to not exceed 30 years.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

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

Primary Government	Fair Value	Less Than Five Years
U.S. government securities	\$ 377,521	\$ 377,520
Municipal bonds	4,832,336	4,832,336
Total	\$ 5,209,857	\$ 5,209,856

Fiduciary Funds	Fair Value	Less Than Five		
		Years	Five to 15 Years	Over 15 Years
U.S. government securities	\$ 983,674	\$ 424,389	\$ 528,634	\$ 30,651
Municipal bonds	912,750	316,945	350,617	245,188
Corporate bonds	229,734	75,291	154,443	-
Other - Fixed income	160,044	64,463	61,756	33,825
Mutual funds - Fixed income	6,903,949	1,973,415	4,930,534	-
Total	\$ 9,190,151	\$ 2,854,503	\$ 6,025,984	\$ 309,664

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments in fixed-income securities to bond ratings not less than Baa by Moody's and/or BBB by Standard & Poor's. Short-term fixed-income securities must have a minimum rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's, or Fitch's rating services, respectively. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
Municipal bonds	\$ 320,038	AA	S&P
Municipal bonds	2,196,273	AA-	S&P
Municipal bonds	79,951	SPI +	S&P
Municipal bonds	1,849,103	AA1	Moody's
Municipal bonds	386,971	AA3	Moody's
U.S. government securities	377,521	AA+	S&P
Total	\$ 5,209,857		

### Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
<b>Fiduciary Funds</b>			
Bond and other securities	\$ 748,915	AAA	Moody's
Bond and other securities	115,472	AA3	Moody's
Bond and other securities	133,802	AA2	Moody's
Bond and other securities	311,771	AA1	Moody's
Bond and other securities	261,467	A2	Moody's
Bond and other securities	714,775	N/A	Not Rated
Mutual funds - Fixed income	6,903,949	N/A	Not Rated
Total	<u>\$ 9,190,151</u>		

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

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

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

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of June 30, 2016:

#### Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. government securities	\$ 7,106,281	\$ -	\$ 7,106,281	\$ -
Corporate bonds	229,734	-	229,734	-
Mutual funds - Fixed income	6,903,949	6,903,949	-	-
Other - Fixed income	160,044	-	160,044	-
Total debt securities	14,400,008	6,903,949	7,496,059	-
Equity securities:				
Common stock	33,297,120	33,297,120	-	-
Other	181,139	-	181,139	-
Total equity securities	33,478,259	33,297,120	181,139	-
Total investments by fair value level	47,878,267	\$ 40,201,069	\$ 7,677,198	\$ -
Investments measured at the net asset value (NAV) - Collective trusts	12,344,678			
Total investments measured at fair value	\$ 60,222,945			

The fair values of the mutual funds - fixed income and common stock classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of the U.S. government securities and other fixed-income securities at June 30, 2016 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of the corporate bonds and other equities at June 30, 2016 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs such as a matrix pricing model.

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

**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 the year ended June 30, 2016, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Collective trusts	\$ 12,344,678	\$ -	None	N/A

The private placement collective trust fund class includes investments in collective trusts that invest in investment-grade fixed-income securities and diversified sector/industry stocks. The trusts are managed and designed to match or exceed the performance of specific market indices. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets

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

	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 2,523,904	\$ -	\$ -	\$ -	\$ 2,523,904
Construction in progress	164,856	(182,166)	19,026	-	1,716
Subtotal	2,688,760	(182,166)	19,026	-	2,525,620
Capital assets being depreciated:					
Buildings and improvements	11,840,307	-	169,641	(50,813)	11,959,135
Vehicles	5,487,126	-	2,781,132	(941,728)	7,326,530
Furniture and equipment	6,790,653	182,166	463,563	(119,302)	7,317,080
Land improvements	3,087,352	-	164,907	-	3,252,259
Roads and sidewalks	21,674,776	-	1,397,503	(362,154)	22,710,125
Subtotal	48,880,214	182,166	4,976,746	(1,473,997)	52,565,129
Accumulated depreciation:					
Buildings and improvements	5,672,146	-	322,859	(49,465)	5,945,540
Vehicles	3,949,123	-	439,331	(476,086)	3,912,368
Furniture and equipment	5,146,744	-	357,873	(116,453)	5,388,164
Land improvements	2,058,350	-	159,874	-	2,218,224
Roads and sidewalks	14,212,024	-	449,500	(332,131)	14,329,393
Subtotal	31,038,387	-	1,729,437	(974,135)	31,793,689
Net capital assets being depreciated	17,841,827	182,166	3,247,309	(499,862)	20,771,440
Net capital assets	\$ 20,530,587	\$ -	\$ 3,266,335	\$ (499,862)	\$ 23,297,060

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 14,242	\$ -	\$ -	\$ -	\$ 14,242
Construction in progress	1,691,736	(1,873,564)	188,963	-	7,135
Subtotal	1,705,978	(1,873,564)	188,963	-	21,377
Capital assets being depreciated:					
Water and sewer distribution systems	64,746,812	-	343,649	-	65,090,461
Treatment facilities	7,076,447	419,500	2,298,853	-	9,794,800
Buildings and improvements	11,654,992	-	11,790	-	11,666,782
Machinery and equipment	3,716,968	1,454,064	78,657	(64,292)	5,185,397
Land improvements	467,823	-	-	-	467,823
Subtotal	87,663,042	1,873,564	2,732,949	(64,292)	92,205,263
Accumulated depreciation:					
Water and sewer distribution systems	23,479,999	-	1,620,360	-	25,100,359
Treatment facilities	5,603,866	-	210,534	-	5,814,400
Buildings and improvements	8,135,516	-	534,040	-	8,669,556
Machinery and equipment	2,203,277	-	242,938	(64,292)	2,381,923
Land improvements	126,743	-	11,550	-	138,293
Subtotal	39,549,401	-	2,619,422	(64,292)	42,104,531
Net capital assets being depreciated	48,113,641	1,873,564	113,527	-	50,100,732
Net capital assets	\$ 49,819,619	\$ -	\$ 302,490	\$ -	\$ 50,122,109

	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
<b>Component Units</b>					
Capital assets being depreciated - Land improvements	\$ 3,413,916	\$ -	\$ 13,500	\$ (15,990)	\$ 3,411,426
Accumulated depreciation - Land improvements	843,051	-	99,219	-	942,270
Net capital assets	\$ 2,570,865	\$ -	\$ (85,719)	\$ (15,990)	\$ 2,469,156

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 620,933
Public safety	98,614
Public works	171,351
Recreation and culture	436,743
Internal service fund depreciation charged to various functions based on usage of the asset	<u>401,796</u>
Total governmental activities	<u>\$ 1,729,437</u>

Business-type activities:

Water and sewer	\$ 2,004,162
Recreation	<u>615,260</u>
Total business-type activities	<u>\$ 2,619,422</u>

Component unit activities - Downtown Development Authority	<u>\$ 99,219</u>
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### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From CDGB
General Fund	<u>\$ 108,915</u>
Fund Advanced To	Fund Advanced From General Fund
Brownfield Redevelopment Authority	\$ 65,000
Downtown Development Authority	1,260,000
Recreation Fund	<u>2,103,064</u>
Total	<u>\$ 3,428,064</u>

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The interfund 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.

The long-term advance from the General Fund to the Brownfield Redevelopment Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

The long-term advance from the General Fund to the Downtown Development Authority (DDA) represents monies advanced to redeem two general obligation limited tax bonds for \$800,000 and \$630,000 during 2015. The \$800,000 advance is to be repaid in eight equal installments of \$100,000, plus interest ranging from 1.0 percent to 2.5 percent, through October 2022. The outstanding balance at June 30, 2016 is \$700,000. The \$630,000 advance is to be repaid in nine equal installments of \$70,000, plus interest ranging from 1.0 percent to 2.5 percent, through October 2023. The outstanding balance at June 30, 2016 is \$560,000.

The long-term advance from the General Fund to the Recreation Fund represents monies advanced to redeem building authority bonds for \$773,500 and to cover costs associated with ice rink energy upgrades of \$1,454,064. The \$773,500 advance is to be repaid in seven equal installments of \$110,000, plus interest ranging from 1.0 percent to 2.5 percent, through October 2021. The outstanding balance at June 30, 2016 is \$663,000. The \$1,454,064 advance is to be repaid in one installment of \$14,000, plus interest, in 2016 and then nine equal installments of \$160,007, plus interest ranging from 1.0 percent to 2.5 percent, through June 2025. The outstanding balance at June 30, 2016 is \$1,440,064.

The composition of interfund transfers at the fund level is as follows:

Transfers In	Transfers Out		Total
	General Fund	Nonmajor Governmental Funds - Major Roads	
Nonmajor governmental funds - Capital projects fund	\$ 200,000	\$ -	\$ 200,000
Nonmajor governmental funds - Grant fund	8,979	-	8,979
Nonmajor governmental funds - Local streets	-	160,000	160,000
Business-type activities - Recreation	190,000	-	190,000
<b>Total</b>	<b>\$ 398,979</b>	<b>\$ 160,000</b>	<b>\$ 558,979</b>

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

### Note 6 - 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:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Building Authority Refunding Bonds, Series 2005 - Amount of issue - \$6,115,000	N/A	N/A	\$ 809,000	\$ -	\$ 809,000	\$ -	\$ -
Building Authority Refunding Bonds, Series 2015 - Amount of issue - \$711,000	0.50% - 1.75%	\$116,000 - \$122,000	-	711,000	-	711,000	116,000
Installment purchase agreements -							
Safety and refuse vehicle - Amount of issue - \$1,150,000	2.60%	\$276,316 - \$298,837	-	1,150,000	-	1,150,000	276,316
Tractor and dump truck - Amount of issue - \$379,067	2.80%	\$90,545 - \$98,874	-	379,068	-	379,068	90,545
Total bonds payable			809,000	2,240,068	809,000	2,240,068	482,861
Other long-term obligations -							
Compensated absences			1,802,811	42,567	2,676	1,842,702	904,039
Total governmental activities			\$ 2,611,811	\$ 2,282,635	\$ 811,676	\$ 4,082,770	\$ 1,386,900

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
General obligation bonds:							
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2.5%	\$675,000 - \$730,000	\$ 4,189,064	\$ -	\$ 660,000	\$ 3,529,064	\$ 675,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2.5%	\$860,000 - \$926,706	6,176,706	-	840,000	5,336,706	860,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2.5%	\$50,000 - \$60,648	435,648	-	50,000	385,648	50,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2.5%	\$505,000 - \$592,518	4,867,518	-	490,000	4,377,518	505,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2.5%	\$100,000 - \$125,000	1,115,000	-	100,000	1,015,000	100,000
State Revolving Fund Limited Tax Bonds - Program 5127-06 - Amount of issue - \$4,130,000	2.125%	\$205,000 - \$250,000	2,480,000	-	205,000	2,275,000	205,000
Building Authority Refunding Bonds, Series 2005 - Amount of issue - \$6,115,000	N/A	N/A	3,236,000	-	3,236,000	-	-
Building Authority Refunding Bonds, Series 2015 - Amount of issue - \$2,844,000	0.50% - 1.75%	\$464,000 - \$484,000	-	2,844,000	-	2,844,000	464,000
Total general obligation bonds			22,499,936	2,844,000	5,581,000	19,762,936	2,859,000
Compensated absences			302,286	29,285	-	331,571	141,490
Total business-type activities			<u>\$ 22,802,222</u>	<u>\$ 2,873,285</u>	<u>\$ 5,581,000</u>	<u>\$ 20,094,507</u>	<u>\$ 3,000,490</u>

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

Annual debt service requirements, exclusive of compensated absences and uninsured claims, to maturity for the above bonds and note obligations are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 482,861	\$ 49,261	\$ 532,122	\$ 2,859,000	\$ 415,759	\$ 3,274,759
2018	499,181	38,192	537,373	2,923,000	353,172	3,276,172
2019	503,314	27,023	530,337	2,949,000	288,319	3,237,319
2020	518,711	18,289	537,000	3,039,000	220,789	3,259,789
2021	116,000	2,970	118,970	3,048,064	150,881	3,198,945
2022-2026	120,001	1,050	121,051	4,944,872	173,842	5,118,714
Total	<u>\$ 2,240,068</u>	<u>\$ 136,785</u>	<u>\$ 2,376,853</u>	<u>\$ 19,762,936</u>	<u>\$ 1,602,762</u>	<u>\$ 21,365,698</u>

### Note 6 - Long-term Debt (Continued)

**Current Refundings** - During the year, the City issued \$3,555,000 in general obligation bonds with interest ranging from 0.50 percent to 1.75 percent. The refunding bonds were allocated to the governmental activities and recreation operation fund in the amount of \$711,000 and \$2,844,000, respectively. The net proceeds of \$3,510,000 (after payment of \$45,000 in underwriting fees, insurance, and other issuance costs) were used to refund \$3,510,000 of the outstanding Building Authority Refunding Bonds, Series 2005 bonds with an interest rate of 4.0 percent. The Building Authority Refunding Bonds, Series 2005 were allocated to the governmental activities and recreation operation fund in the amount of \$702,000 and \$2,808,000, respectively. The refunding reduced total debt service payments over the next eight years by \$290,941. The net present value of the savings amounts to \$278,454.

Total interest expense incurred by the City for the year approximated \$644,000.

### Note 7 - Postemployment Benefits

**Plan Description** - The City provides life insurance and healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. As of June 30, 2013, the date of the last actuarial valuation, 208 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan. The City purchases Medicare Advantage insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare and life insurance benefits include insurance premiums that become due during the current year and discretionary contributions made to the Retiree Health Care Trust Fund.

This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements or city policy. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Effective at various negotiated dates, retiree health care is no longer offered to new hires. These employees participate in a retiree healthcare savings account by contributing 2 percent along with a 2 percent city match.

**Funding Policy** - The collective bargaining agreements and city policy do not require advanced funding contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid postemployment healthcare premiums of \$2,683,133; in addition, the City contributed \$291,858 into the Retiree Healthcare Trust Fund, which is reported in these financial statements as a pension and other employee benefit trust fund type.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 7 - Postemployment Benefits (Continued)

**Funding Progress** - For the year ended June 30, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 24 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 5,180,249
Interest on the prior year's net OPEB obligation	446,732
Less adjustment to the annual required contribution	<u>(430,912)</u>
Annual OPEB cost	5,196,069
Amounts contributed:	
Payments of current premiums	(2,683,133)
Advance funding	<u>(291,858)</u>
Increase in net OPEB obligation	2,221,078
OPEB obligation - Beginning of year	<u>11,168,291</u>
OPEB obligation - End of year	<u>\$ 13,389,369</u>

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

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/14	6/30/11	\$ 4,781,601	57 %	\$ 8,930,738
6/30/15	6/30/13	4,993,662	55 %	11,168,291
6/30/16	6/30/13	5,196,069	58 %	13,389,369

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/11	\$ 5,275,630	\$ 79,845,428	\$ 74,569,798	6.6 %	\$ 5,071,911	1,470.3 %
6/30/13	6,070,127	82,812,846	76,742,719	7.3	5,960,046	1,287.6

### Note 7 - Postemployment Benefits (Continued)

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress above presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The actuarial valuation assumed an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.0 percent after 10 years. Both rates included a 3.5 percent inflation assumption. Actuarial gains and losses reduce (increase) the UAAL as they occur. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 24 years.

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to workers' compensation. Property loss and general liability insurance is provided by Glatfelters Public Practice. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured limitations of \$100,000 per specific claim and approximately \$2,305,000 in aggregate claims.

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.

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	2016	2015
Estimated liability - Beginning of year	\$ 503,481	\$ 454,643
Estimated claims incurred, including changes in estimates and related administrative costs	4,704,172	4,802,783
Claim and related administrative payments	<u>(4,719,758)</u>	<u>(4,753,945)</u>
Estimated liability - End of year	<u>\$ 487,895</u>	<u>\$ 503,481</u>

### Note 9 - Agent Defined Benefit Pension Plan

**Plan Description** - The City participates in an agent multiple employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS or MERS of Michigan). MERS was established as a statewide public employee pension plan by the Michigan legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Benefits Provided** - The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

### Note 9 - Agent Defined Benefit Pension Plan (Continued)

The MERS plan covers all employees of the City hired before January 1, 1996, other than police and fire personnel. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan is closed to new entrants.

Retirement benefits for employees are calculated as 2.25 percent (80.00 percent maximum) of the employee's best three-year average salary times the employee's years of service. Normal retirement age is 50 with 25 years of service or 55 with 15 years of service, or 60 with 10 years of service. Vesting period is 10 years.

Participating employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Non-duty disability benefits are determined in the same manner as retirement benefits. Duty disability benefits are calculated in the same manner, but with a monthly pension payment that is a minimum of 25 percent of an employee's final average compensation. Disability benefits are subject to approval by MERS.

Participating employees are eligible for non-duty death and duty death benefits. Non-duty death benefits are the greater of a lifetime benefit of at least 85 percent of the defined benefit formula or the survivor benefit payment option. A member must be vested for a beneficiary to receive a benefit. For a beneficiary to receive a duty-related death benefit, the participating employee does not have to be vested. The minimum benefit is 25 percent of the final average compensation.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are 2.5 percent, noncompounding.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions.

**Employees Covered by Benefit Terms** - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	124
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>20</u>
Total employees covered by MERS	<u><u>145</u></u>

### Note 9 - Agent Defined Benefit Pension Plan (Continued)

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. 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. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2016, the City's annual contribution was \$1,635,071.

#### Net Pension Liability

The net pension liability reported at June 30, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that 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
<b>Balance at December 31, 2014</b>	\$ 43,352,596	\$ 25,800,591	\$ 17,552,005
Service cost	164,886	-	164,886
Interest	3,449,721	-	3,449,721
Differences between expected and actual experience	(302,759)	-	(302,759)
Changes in assumptions	2,258,463	-	2,258,463
Contributions - Employer	-	1,553,688	(1,553,688)
Contributions - Employee	-	67,467	(67,467)
Net investment income	-	(370,266)	370,266
Benefit payments, including refunds	(3,240,472)	(3,240,472)	-
Administrative expenses	-	(55,063)	55,063
Net changes	2,329,839	(2,044,646)	4,374,485
<b>Balance at December 31, 2015</b>	<u>\$ 45,682,435</u>	<u>\$ 23,755,945</u>	<u>\$ 21,926,490</u>

### Note 9 - Agent Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$2,441,820. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,221,348	\$ -
Employer contributions to the plan subsequent to the measurement date	<u>817,537</u>	<u>-</u>
Total	<u>\$ 3,038,885</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$817,537), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 578,466
2018	578,466
2019	578,466
2020	485,950

**Actuarial Assumptions** - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% With merit increases totaling up to 11 percent, for a total of 3.75 percent to 14.75 percent
Investment rate of return	8.0% Net of pension plan investment expense, including inflation

### Note 9 - Agent Defined Benefit Pension Plan (Continued)

Mortality rates were based on 50 percent male and 50 percent female blend of the RP 2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent, RP 2014 Employee Mortality Tables, and RP 2014 Juvenile Mortality Tables. For disabled plan members, rates were based on a blend of the 50 percent male and 50 percent RP 2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period from January 1, 2009 through December 31, 2013.

**Discount Rate** - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### **Projected Cash Flows**

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

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

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

### Note 9 - Agent Defined Benefit Pension Plan (Continued)

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58 %	5.00 %
Global fixed income	20 %	2.20 %
Real assets	12 %	4.20 %
Diversifying strategies	10 %	6.50 %

**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 8.0 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 (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1 Percent Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1 Percent Increase (9.0%)</u>
Net pension liability of the City	\$ 26,562,538	\$ 21,926,490	\$ 17,982,360

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position has 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.

### Note 10 - Firemen and Policemen Retirement System

**Plan Description** - The Firemen and Policemen Retirement System Board of Trustees administers the Firemen and Policemen Retirement System (the "Pension Plan") - a single-employer defined benefit pension plan that provides pensions for substantially all permanent full-time fire and police employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation, as well as City policy; amendments are subject to the same process.

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

### Note 10 - Firemen and Policemen Retirement System (Continued)

Management of the Pension Plan is vested in the board of trustees, which consists of five members - the city treasurer, a police member (elected by members of the police department), a fire member (elected by the fire department), and two citizens of the City of Trenton (appointed by the mayor).

**Employees Covered by Benefit Terms** - At the June 30, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	114
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>62</u>
Total employees covered by the Pension Plan	<u><u>177</u></u>

**Benefits Provided** - The Pension Plan provides retirement, disability, and death benefits. 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:

**Regular Retirement:**

*Annual Amount:* For members hired before January 1, 1996: Straight life pension equals 2.5 percent of three-year average final compensation (AFC) times years of service up to a maximum of 80 percent of AFC. For members hired on or after January 1, 1996: Straight life pension equals 2.0 percent of AFC times year of service up to a maximum of 80 percent of AFC.

*Average Final Compensation (AFC):* Highest three years out of 10. Fire: hired on or before December 31, 1995, AFC includes base wages, holiday pay, longevity, overtime pay, and unused vacation time. Police: hired on or before December 31, 1995, AFC includes base wages, holiday pay, overtime pay, and unused vacation leave. Police and fire: hired after January 1, 1996, AFC includes base wages and up to 240 hours of accrued leave time, which is payable at time of retirement.

**Death After Retirement:**

*Annual Amount:* Spouse's default pension equals 60 percent of the straight life pension deceased retiree was receiving; however, other options are available.

**Deferred Retirement:**

*Annual Amount:* Computed as service retirement but based upon service, AFC and benefit in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

**Duty Disability Retirement:**

*Annual Amount:* To age 55, 50 percent of AFC. At age 55, same as service retirement pension with service credit from date of disability to age 55.

### **Note 10 - Firemen and Policemen Retirement System (Continued)**

#### **Non-duty Disability Retirement:**

*Annual Amount:* To age 55, 50 percent of AFC times years of service. At age 55, same as service retirement pension.

#### **Duty Death-in-service Retirement:**

*Annual Amount:* Same as amount that was paid by workers' compensation.

#### **Non-duty Death-in-service Retirement:**

*Annual Amount:* Accrued straight life pension actuarially reduced in accordance with an Option I election.

**Annuity Withdrawal Option** - If elected, member contribution account balance is paid in a lump sum at retirement. The regular retirement benefit is then reduced so that the total benefits paid (lump sum plus monthly pension) are equivalent to the regular retirement benefit. For members hired before January 1, 1996, the discount rate used to establish equivalency was established by the board of trustees at 4.5 percent. For members hired on or after January 1, 1996, the discount rate used to establish equivalency is calculated at the actuarial equivalent rate established by the board of trustees, which is currently 7.25 percent.

**Postretirement Cost-of-living Adjustments** - For members hired before January 1, 1996: 10 percent after 5 years, 10 percent after 10 years, and 5 percent after 15 years (each increase based on base pension). For members hired on or after January 1, 1996: no cost-of-living adjustments.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city charter, union contracts, and plan provisions. The Pension Plan requires contribution from the employees of 6.0 percent, of all pensionable earnings. For the year ended June 30, 2016, the City contributed the actuarial required contribution of \$1,424,943.

### Note 10 - Firemen and Policemen Retirement System (Continued)

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

**Investment Policy** - The Pension Plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Pension Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the pension board of trustees' adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation
U.S. Large Cap Core Stocks	13.00 %
U.S. All Cap Stocks	22.00 %
U.S. SMID Stocks	6.00 %
International Equity	19.00 %
Global Corporate Bonds	13.50 %
Global Investment Grade Bonds	15.50 %
U.S. Inflation-Linked Securities	4.00 %
Real Estate	5.00 %
Cash	2.00 %

**Rate of Return** - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (2.26) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Pension Plan Reserves

In accordance with the board of trustees, the following reserves are required to be set aside within the Pension Plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the Pension Plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 2.0 percent. For any employee who terminates before vesting in the Pension Plan, the balance is returned to them upon their request. For those who stay until retirement, the balance is transferred into the retiree reserve; it is not taken out through the annuity withdrawal option.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 10 - Firemen and Policemen Retirement System (Continued)

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

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 49,386,510	\$ 46,107,254
Employee reserve	2,701,817	2,701,817

#### Net Pension Liability

The components of the net pension liability of the City at June 30, 2016 were as follows:

Total pension liability	\$ (67,484,939)
Plan fiduciary net position	<u>48,809,071</u>
City's net pension liability	<u>\$ (18,675,868)</u>

Plan fiduciary net position as a percentage of the total pension liability 72.3 %

The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of June 30, 2015, which used updated procedures to roll forward the estimated liability to June 30, 2016.

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

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
<b>Balance at June 30, 2015</b>	\$ 67,022,681	\$ 52,961,843	\$ 14,060,838
Service cost	790,014	-	790,014
Interest	4,718,863	-	4,718,863
Differences between expected and actual experience	(386,797)	-	(386,797)
Contributions - Employer	-	1,424,943	(1,424,943)
Contributions - Employee	-	242,042	(242,042)
Net investment loss	-	(1,127,534)	1,127,534
Benefit payments, including refunds	(4,659,822)	(4,659,822)	-
Administrative expenses	-	(32,401)	32,401
Net changes	<u>462,258</u>	<u>(4,152,772)</u>	<u>4,615,030</u>
<b>Balance at December 31, 2015</b>	<u>\$ 67,484,939</u>	<u>\$ 48,809,071</u>	<u>\$ 18,675,868</u>

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 10 - Firemen and Policemen Retirement System (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$1,786,927. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 117,895	\$ -
Net difference between projected and actual earnings on pension plan investments	<u>6,015,580</u>	<u>(310,208)</u>
Total	<u>\$ 6,133,475</u>	<u>\$ (310,208)</u>

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

Years Ending June 30	Amount
2017	\$ 1,642,702
2018	1,642,702
2019	1,642,702
2020	899,012
2021	(3,851)

**Actuarial Assumptions** - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 %
Salary increases	3.7-11.5 % Average, including inflation
Investment rate of return	7.25 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for males and females, adjusted for mortality improvements to 2020 using projection scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1999-2004.

### Note 10 - Firemen and Policemen Retirement System (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2016 for each major asset class included in the Pension Plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. Large Cap Core Stocks	7.10 %
U.S. All Cap Stocks	7.70 %
U.S. SMID Stocks	7.80 %
International Equity	7.40 %
Global Corporate Bonds	3.20 %
Global Investment Grade Bonds	2.60 %
U.S. Inflation-linked Securities	2.20 %
Real Estate	6.40 %
Cash	- %

### Note 10 - Firemen and Policemen Retirement System (Continued)

**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 7.25 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 (6.25 percent) or 1.0 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability of the City	\$ 25,986,792	\$ 18,675,868	\$ 12,509,218

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are report 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.

### Note 11 - Defined Contribution Pension Plan

The majority of full-time general employees hired after January 1, 1996 (except the TPOAM, for which the effective date was July 1, 1996) participate in the City's defined contribution plan: the General Employees' Money Purchase Plan (General Employees' Plan). The plans are administered by ICMA. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

As established by the TPOAM collective bargaining agreement and per city policy, the City contributes 6 percent of employees' base earnings, and the employees contribute 6 percent of earnings. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

In accordance with these requirements, the City contributed \$174,372 during the current year and the employees contributed \$174,370 during the current year for the General Employees' Plan. The City did not contribute to the Fire Fighters and Police Officers Plan during the current year as there were no participants remaining in the plan. The plans' assets, which aggregated \$4,643,066 at June 30, 2016, are held by an independent third-party administrator.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2016

### Note 12 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the pension and other employee benefit trust funds, which include the Firemen and Policemen Retirement System and the Retiree Health Care Trust Funds:

	Firemen and Policemen Retirement System Trust Fund	Retiree Health Care Trust Fund	Total
Statement of net position:			
Cash and investments	\$ 48,787,651	\$ 7,893,928	\$ 56,681,579
Receivables	21,420	-	21,420
Total net position	<u>\$ 48,809,071</u>	<u>\$ 7,893,928</u>	<u>\$ 56,702,999</u>
Statement of changes in net position:			
Investment loss	\$ (1,122,314)	\$ (45,551)	\$ (1,167,865)
Contributions	1,666,985	2,974,991	4,641,976
Benefit payments	(4,659,822)	(2,683,133)	(7,342,955)
Administrative expenses	(37,621)	(79,797)	(117,418)
Change in net position	<u>\$ (4,152,772)</u>	<u>\$ 166,510</u>	<u>\$ (3,986,262)</u>

### Note 13 - Downtown Development Authority Commitment

The Downtown Development Authority has committed to pay \$1,000,000 to the City of Trenton for city hall renovations made in 2009. The commitment will be paid to the City over a 10-year period in installments of \$100,000 per year. The payments will only be made if sufficient tax captures are available. For the year ended June 30, 2016, the Downtown Development Authority was unable to make the \$100,000 installment payment. The outstanding commitment at June 30, 2016 was \$700,000.

### **Note 14 - Joint Ventures**

#### **33rd District Court System**

The City is a member of the 33rd District Court System (the “District Court”), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture’s governing board, who then approves the annual budget.

The District Court receives its operating revenue principally through contributions from member communities. During the current year, the City returned approximately \$14,500 to the District Court, representing the City’s share of the District Court’s net activity. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future, other than the fluctuation of case loads, which impacts the government’s share of the District Court’s expenses. Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City’s equity interest at June 30, 2016 is \$544,202.

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

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB Statement No. 75 is effective one year later.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

## **Required Supplemental Information**

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# City of Trenton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 14,259,427	\$ 14,259,427	\$ 14,213,997	\$ (45,430)
Licenses and permits	438,100	438,100	432,645	(5,455)
State sources	2,026,000	2,026,000	1,936,069	(89,931)
Charges for services	1,445,581	1,445,581	1,547,929	102,348
Fines and forfeitures	450,000	450,000	483,780	33,780
Interest income	94,000	94,000	66,696	(27,304)
Other	617,500	1,737,500	1,764,951	27,451
Total revenue	19,330,608	20,450,608	20,446,067	(4,541)
<b>Expenditures</b>				
Current:				
General government:				
Mayor and Council	100,938	100,938	100,616	322
City administrator	447,570	447,570	450,303	(2,733)
City controller	298,046	298,046	300,468	(2,422)
City treasurer	75,427	75,427	71,968	3,459
City assessor	174,355	174,355	151,737	22,618
Board of Review	1,900	1,900	1,485	415
Clerk	216,015	216,015	210,757	5,258
Elections	48,650	48,650	39,851	8,799
Buildings and grounds	835,935	835,935	865,229	(29,294)
Attorney	185,075	225,075	221,863	3,212
District Court	386,114	386,114	385,834	280
Planning commission	53,350	120,850	98,752	22,098
Central office	300,000	515,500	318,982	196,518
Total general government	3,123,375	3,446,375	3,217,845	228,530
Public safety:				
Police department	4,310,194	4,310,194	4,237,460	72,734
Traffic safety commission	700	700	690	10
Fire department	3,612,258	4,711,654	4,701,943	9,711
Emergency	131,377	131,377	131,395	(18)
Animal control	66,631	66,631	63,851	2,780
Corrections department/jail	43,000	73,000	65,087	7,913
Building inspection	463,451	509,711	506,045	3,666
Civil defense	24,940	24,940	16,498	8,442
Crossing guards	75,165	75,165	74,572	593
Total public safety	8,727,716	9,903,372	9,797,541	105,831

# City of Trenton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Current (Continued):				
Public works:				
City engineer	\$ 185,496	\$ 231,756	\$ 228,365	\$ 3,391
Sanitation	1,323,735	2,285,936	2,345,059	(59,123)
Street lighting	725,000	650,000	651,698	(1,698)
Department of public service	689,686	689,686	644,512	45,174
Total public works	2,923,917	3,857,378	3,869,634	(12,256)
Retiree benefits and other	3,686,178	3,688,061	3,676,317	11,744
Recreation and culture:				
Cultural center	17,700	17,700	8,675	9,025
Parks department	442,506	417,506	411,183	6,323
Civic commission	14,000	14,000	20,273	(6,273)
Historical commission	4,825	4,825	1,913	2,912
Other commissions	2,080	2,080	2,315	(235)
Outdoor pool	299,181	299,181	323,710	(24,529)
Total recreation and culture	780,292	755,292	768,069	(12,777)
Interest expense	159,130	159,130	137,130	22,000
Total expenditures	19,400,608	21,809,608	21,466,536	343,072
<b>Excess of Revenue Over Expenditures</b>	(70,000)	(1,359,000)	(1,020,469)	338,531
<b>Face Value of Debt Issue</b>	-	1,529,000	1,538,068	9,068
<b>Other Financing Uses - Transfers out</b>	(100,000)	(340,000)	(548,979)	(208,979)
<b>Net Change in Fund Balance</b>	<b>\$ (170,000)</b>	<b>\$ (170,000)</b>	<b>\$ (31,380)</b>	<b>\$ 138,620</b>

Note: The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only and represents greater detail than the adopted budget, except for department totals.

# City of Trenton, Michigan

## Note to Required Supplemental Information Year Ended June 30, 2016

**Budgetary Information** - A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
City of Trenton, Michigan:		
Amounts per operating statement	\$ 19,900,691	\$ 21,564,565
Separation Pay Fund	<u>(4,624)</u>	<u>(98,029)</u>
Amounts per budget statement	<u>\$ 19,896,067</u>	<u>\$ 21,466,536</u>

The General Fund transferred \$150,000 to the Separation Pay Fund.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Trenton, Michigan incurred expenditures that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public works	\$ 3,857,378	\$ 3,869,634	\$ (12,256)
Recreation and culture	755,292	768,069	(12,777)

# City of Trenton, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Municipal Employees' Retirement System of Michigan Last Ten Fiscal Years

	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 164,886	\$ 195,162
Interest	3,449,721	3,418,536
Changes in benefit terms	-	-
Differences between expected and actual experience	(302,759)	-
Changes in assumptions	2,258,463	-
Benefit payments, including refunds	(3,240,472)	(3,200,631)
<b>Net Change in Total Pension Liability</b>	2,329,839	413,067
<b>Total Pension Liability - Beginning of year</b>	43,352,596	42,939,529
<b>Total Pension Liability - End of year</b>	<b>\$ 45,682,435</b>	<b>\$ 43,352,596</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 1,553,688	\$ 1,384,206
Contributions - Member	67,467	74,490
Net investment (loss) income	(370,266)	1,607,609
Administrative expenses	(55,063)	(58,651)
Benefit payments, including refunds	(3,240,472)	(3,200,631)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	(2,044,646)	(192,977)
<b>Plan Fiduciary Net Position - Beginning of year</b>	25,800,591	25,993,568
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 23,755,945</b>	<b>\$ 25,800,591</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 21,926,490</b>	<b>\$ 17,552,005</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	52.00 %	59.51 %
<b>Covered Employee Payroll</b>	\$ 1,243,702	\$ 1,470,710
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	1,763.0 %	1,193.4 %



# City of Trenton, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Firemen and Policemen Retirement System

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 790,014	\$ 814,380	\$ 899,643
Interest	4,718,863	4,651,292	4,621,631
Changes in benefit terms	-	-	(151,801)
Differences between expected and actual experience	(386,797)	193,772	-
Changes in assumptions	-	-	-
Benefit payments, including refunds	(4,659,822)	(4,770,653)	(5,064,779)
Net change in total pension liability	462,258	888,791	304,694
Total pension liability - Beginning of year	67,022,681	66,133,890	65,829,196
Total pension liability - End of year	<b>\$ 67,484,939</b>	<b>\$ 67,022,681</b>	<b>\$ 66,133,890</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 1,424,943	\$ 1,411,401	\$ 1,329,445
Contributions - Member	242,042	241,100	259,613
Net investment income	(1,127,534)	377,453	7,857,497
Administrative expenses	(32,401)	(11,876)	(30,357)
Benefit payments, including refunds	(4,659,822)	(4,770,653)	(5,064,779)
Other	-	(21,609)	-
Net change in plan fiduciary net position	(4,152,772)	(2,774,184)	4,351,419
Plan fiduciary net position - Beginning of year	52,961,843	55,736,027	51,384,608
Plan fiduciary net position - End of year	<b>\$ 48,809,071</b>	<b>\$ 52,961,843</b>	<b>\$ 55,736,027</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 18,675,868</b>	<b>\$ 14,060,838</b>	<b>\$ 10,397,863</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	72.33 %	79.02 %	84.28 %
<b>Covered Employee Payroll</b>	\$ 3,876,578	\$ 3,932,237	\$ 4,376,244
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	481.8 %	357.6 %	237.6 %

# City of Trenton, Michigan

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## Required Supplemental Information Schedule of Investment Returns Firemen and Policemen Retirement System Last Ten Fiscal Years

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	(2.3)%	0.6 %	15.4 %

# City of Trenton, Michigan

## Required Supplemental Information Schedule of City Contributions Firemen and Policemen Retirement System Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,424,943	\$ 1,411,401	\$ 1,329,444	\$ 1,050,331	\$ 1,116,778	\$ 801,120	\$ 485,174	\$ 455,199	\$ 838,615	\$ 1,100,318
Contributions in relation to the actuarially determined contribution	1,424,943	1,411,401	1,329,444	1,050,331	1,116,778	801,120	485,174	455,199	838,615	1,100,318
<b>Contribution Deficiency</b>	<b>\$ -</b>									
<b>Covered Employee Payroll</b>	<b>\$ 3,876,578</b>	<b>\$ 3,923,237</b>	<b>\$ 4,376,244</b>	<b>\$ 4,245,698</b>	<b>\$ 2,881,249</b>	<b>\$ 3,295,980</b>	<b>\$ 3,892,915</b>	<b>\$ 3,872,581</b>	<b>\$ 3,646,192</b>	<b>\$ 3,646,192</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>36.8 %</b>	<b>36.0 %</b>	<b>30.4 %</b>	<b>24.7 %</b>	<b>38.8 %</b>	<b>24.3 %</b>	<b>12.5 %</b>	<b>11.8 %</b>	<b>23.0 %</b>	<b>30.2 %</b>

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	The June 30, 2016 contribution was determined in the June 30, 2013 actuarial valuation. Actuarially determined contribution amounts are calculated as of June 30 each year, which is one year prior to the beginning of the fiscal year in which the contribution is reported.
Methods and assumptions used to determine contribution rates	
Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	21 years (as of valuation date)
Asset valuation method	Five-year smoothed market
Inflation	3.5 percent; no explicit price inflation assumption is used in this valuation
Salary increases	3.7 percent to 11.50 percent
Investment rate of return	7.25 percent (net of investment and administrative expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2005 valuation pursuant to an experience study of the period 1999-2004
Mortality	RP-2000 male (unadjusted) and female (unadjusted) Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.
Other information	Early retirement windows are amortized as a level dollar amount over a closed five-year period beginning in the first year recognized.

# City of Trenton, Michigan

## Required Supplemental Information OPEB System Schedule Year Ended June 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/07	\$ 2,282,504	\$ 52,452,466	\$ 50,169,962	4.4	\$ 6,247,984	803.0
6/30/09	3,491,180	48,794,058	45,302,878	7.2	5,486,642	825.7
6/30/11	5,275,630	79,845,428	74,569,798	6.6	5,071,911	1,470.3
6/30/13	6,070,127	82,812,846	76,742,719	7.3	5,960,046	1,287.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/11	6/30/09	\$ 3,593,213	68.9
6/30/12	6/30/09	3,736,942	62.4
6/30/13	6/30/11	4,588,321	63.9
6/30/14	6/30/11	4,771,855	57.2
6/30/15	6/30/13	4,981,011	55.3
6/30/16	6/30/13	5,180,249	55.4

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period (perpetual)	24 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases (MERS)	4.3 to 17%
Projected salary increases (ACT 345)	3.7 to 11.5%
*Includes inflation at	4.0% for MERS, 3.5% for ACT 345
Health care trend rates	4.0 to 9.0%

## **Other Supplemental Information**

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# City of Trenton, Michigan

	Special Revenue Funds					
	Major Roads	Local Roads	Community Development Block Grant	Special Projects	Grant	Library
<b>Assets</b>						
Cash and investments	\$ 52,352	\$ 167,720	\$ -	\$ 618,547	\$ 613,026	\$ 552,707
Receivables:						
Property taxes receivable	-	-	-	-	-	1,265
Other receivables	-	450	4,102	10,938	23,636	852
Due from other governmental units	129,487	95,548	132,561	-	12,056	157,928
<b>Total assets</b>	<b>\$ 181,839</b>	<b>\$ 263,718</b>	<b>\$ 136,663</b>	<b>\$ 629,485</b>	<b>\$ 648,718</b>	<b>\$ 712,752</b>
<b>Liabilities</b>						
Accounts payable	\$ 6,518	\$ 119,365	\$ 18,500	\$ 31,467	\$ 15,811	\$ 38,037
Due to other funds	-	-	108,915	-	-	-
Accrued liabilities and other	3,019	2,758	4,800	-	1,294	11,423
<b>Total liabilities</b>	<b>9,537</b>	<b>122,123</b>	<b>132,215</b>	<b>31,467</b>	<b>17,105</b>	<b>49,460</b>
<b>Deferred Inflows of Resources -</b>						
Unavailable revenue	-	-	132,561	-	-	-
<b>Fund Balances</b>						
Nonspendable:						
Restricted:						
Roads	172,302	141,595	-	-	-	-
Grant operations	-	-	(128,113)	-	631,613	-
S.I.N.C. operations	-	-	-	-	-	-
Library capital	-	-	-	-	-	103,453
Committed:						
Special projects	-	-	-	598,018	-	-
Library	-	-	-	-	-	559,839
Assigned - Capital projects	-	-	-	-	-	-
<b>Total fund balances</b>	<b>172,302</b>	<b>141,595</b>	<b>(128,113)</b>	<b>598,018</b>	<b>631,613</b>	<b>663,292</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 181,839</b>	<b>\$ 263,718</b>	<b>\$ 136,663</b>	<b>\$ 629,485</b>	<b>\$ 648,718</b>	<b>\$ 712,752</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016**

Special Revenue Funds		Total Nonmajor Governmental Funds
S.I.N.C.	Capital Projects	
\$ 458,390	\$ 1,085,021	\$ 3,547,763
-	-	1,265
34,401	-	74,379
-	-	527,580
<b><u>\$ 492,791</u></b>	<b><u>\$ 1,085,021</u></b>	<b><u>\$ 4,150,987</u></b>
\$ 27,000	\$ 26,597	\$ 283,295
-	-	108,915
-	-	23,294
27,000	26,597	415,504
-	-	132,561
-	-	313,897
-	-	503,500
465,791	-	465,791
-	-	103,453
-	-	598,018
-	-	559,839
-	1,058,424	1,058,424
465,791	1,058,424	3,602,922
<b><u>\$ 492,791</u></b>	<b><u>\$ 1,085,021</u></b>	<b><u>\$ 4,150,987</u></b>

# City of Trenton, Michigan

	Special Revenue Funds					
	Major Roads	Local Roads	Community	Special	Grant	Library
			Development Block Grant	Projects		
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 349,019
Federal grants	-	-	235,773	-	354,363	-
State sources	770,424	495,165	-	-	60,274	104,572
Charges for services	-	-	-	-	15,537	418,067
Fines and forfeitures	-	-	-	-	-	-
Interest income	414	2,889	-	3,419	3,685	3,890
Other revenue	68,630	-	-	279,142	-	-
Total revenue	839,468	498,054	235,773	282,561	433,859	875,548
<b>Expenditures - Current</b>						
Public safety	-	-	-	-	551,767	-
Public works	726,984	1,215,025	-	-	-	-
Special projects	-	-	326,706	264,359	19,265	-
Recreation and culture	-	-	-	-	60,227	772,005
Total expenditures	726,984	1,215,025	326,706	264,359	631,259	772,005
<b>Excess of Revenue Over (Under) Expenditures</b>	112,484	(716,971)	(90,933)	18,202	(197,400)	103,543
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	160,000	-	-	8,979	-
Transfers out	(160,000)	-	-	-	-	-
Total other financing (uses) sources	(160,000)	160,000	-	-	8,979	-
<b>Net Change in Fund Balances</b>	(47,516)	(556,971)	(90,933)	18,202	(188,421)	103,543
<b>Fund Balances - Beginning of year</b>	219,818	698,566	(37,180)	579,816	820,034	559,749
<b>Fund Balances - End of year</b>	<b>\$ 172,302</b>	<b>\$ 141,595</b>	<b>\$ (128,113)</b>	<b>\$ 598,018</b>	<b>\$ 631,613</b>	<b>\$ 663,292</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2016**

Special Revenue Funds		Total Nonmajor Governmental Funds
S.I.N.C.	Capital Projects Fund	
\$ -	\$ -	\$ 349,019
-	-	590,136
-	-	1,430,435
114,916	-	548,520
99,356	-	99,356
2,584	6,356	23,237
-	43,157	390,929
216,856	49,513	3,431,632
177,958	-	729,725
-	4,440	1,946,449
-	112,123	722,453
-	277,480	1,109,712
177,958	394,043	4,508,339
38,898	(344,530)	(1,076,707)
-	200,000	368,979
-	-	(160,000)
-	200,000	208,979
38,898	(144,530)	(867,728)
426,893	1,202,954	4,470,650
<b>\$ 465,791</b>	<b>\$ 1,058,424</b>	<b>\$ 3,602,922</b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2016

	Motor Vehicle Pool Fund	Self-insurance Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 964,080	\$ 5,158,002	\$ 6,122,082
Receivables	674	7,248	7,922
Inventory	238,473	-	238,473
Prepaid expenses and other assets	-	230,073	230,073
Total current assets	1,203,227	5,395,323	6,598,550
Noncurrent assets - Capital assets - Assets subject to depreciation	3,535,455	-	3,535,455
Total assets	4,738,682	5,395,323	10,134,005
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	51,742	180,086	231,828
Accrued liabilities and other	8,399	502,581	510,980
Compensated absences	23,274	-	23,274
Total current liabilities	83,415	682,667	766,082
Noncurrent liabilities - Compensated absences	44,315	-	44,315
Total liabilities	127,730	682,667	810,397
<b>Net Position</b>			
Net investment in capital assets	3,535,455	-	3,535,455
Unrestricted	1,075,497	4,712,656	5,788,153
Total net position	\$ 4,610,952	\$ 4,712,656	\$ 9,323,608

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2016

	Motor Vehicle Pool Fund	Self-insurance Fund	Total
<b>Operating Revenue</b>			
Charges for services	\$ 975,720	\$ 5,123,317	\$ 6,099,037
Other	-	141,648	141,648
Total operating revenue	975,720	5,264,965	6,240,685
<b>Operating Expenses</b>			
Cost of insurance claims	-	4,471,942	4,471,942
Operating costs	918,041	-	918,041
Depreciation	401,796	-	401,796
Total operating expenses	1,319,837	4,471,942	5,791,779
<b>Operating (Loss) Income</b>	(344,117)	793,023	448,906
<b>Nonoperating Revenue</b>			
Investment income	5,264	28,718	33,982
Loss on sale of assets	(36,298)	-	(36,298)
Total nonoperating revenue	(31,034)	28,718	(2,316)
<b>(Loss) Income - Before capital contributions</b>	(375,151)	821,741	446,590
<b>Capital Contributions</b>	2,781,133	-	2,781,133
<b>Change in Net Position</b>	2,405,982	821,741	3,227,723
<b>Net Position - Beginning of year</b>	2,204,970	3,890,915	6,095,885
<b>Net Position - End of year</b>	<b>\$ 4,610,952</b>	<b>\$ 4,712,656</b>	<b>\$ 9,323,608</b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2016

	Motor Vehicle Pool Fund	Self-insurance Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 995,938	\$ 5,379,584	\$ 6,375,522
Payments to suppliers	(596,813)	-	(596,813)
Payments to employees	(338,641)	-	(338,641)
Claims paid	-	(4,513,734)	(4,513,734)
	60,484	865,850	926,334
<b>Cash Flows from Capital and Related Financing Activities -</b>			
Proceeds from sales of capital assets	3,454	-	3,454
<b>Cash Flows from Investing Activities - Interest received on</b>			
investments	5,264	28,718	33,982
	69,202	894,568	963,770
<b>Cash and Cash Equivalents - Beginning of year</b>	894,878	4,263,434	5,158,312
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 964,080</b>	<b>\$ 5,158,002</b>	<b>\$ 6,122,082</b>
<b>Reconciliation of Operating (Loss) Income to Net Cash from</b>			
<b>Operating Activities</b>			
Operating (loss) income	\$ (344,117)	\$ 793,023	\$ 448,906
Adjustments to reconcile operating (loss) income to net cash			
from operating activities:			
Depreciation and amortization	401,796	-	401,796
Changes in assets and liabilities:			
Receivables	20,218	114,619	134,837
Inventories	(11,795)	-	(11,795)
Prepaid and other assets	-	(7,071)	(7,071)
Accounts payable	(7,535)	(26,701)	(34,236)
Accrued and other liabilities	1,917	(8,020)	(6,103)
	\$ 60,484	\$ 865,850	\$ 926,334
<b>Noncash Transactions - Capital contributions</b>	<b>\$ 2,781,133</b>	<b>\$ -</b>	<b>\$ 2,781,133</b>

# City of Trenton, Michigan

## Other Supplemental Information Statement of Fiduciary Net Position Fiduciary Funds June 30, 2016

	Pension Trust Funds			Agency Funds					
	Firemen and Policemen Retirement System	Retiree Health Care	Total Pension Trust Funds	General Cash Fund	Escrow Fund	Tax Receiving Fund	Subtotal	Eliminations	Total Agency Funds
<b>Assets</b>									
Cash and cash equivalents	\$ 1,282,464	\$ 386,027	\$ 1,668,491	\$ 4,017,317	\$ 10,600	\$ 40,204	\$ 4,068,121	\$ (4,017,317)	\$ 50,804
Investments:									
Certificates of deposit	-	-	-	11,409,996	-	-	11,409,996	(11,409,996)	-
U.S. government securities	-	1,896,424	1,896,424	5,209,857	-	-	5,209,857	(5,209,857)	-
Stocks	28,256,560	5,221,699	33,478,259	-	-	-	-	-	-
Corporate bonds	-	229,734	229,734	-	-	-	-	-	-
Other - Fixed income	-	160,044	160,044	-	-	-	-	-	-
Mutual funds - Fixed income	6,903,949	-	6,903,949	-	-	-	-	-	-
Other investments	12,344,678	-	12,344,678	-	-	-	-	-	-
Receivables	21,420	-	21,420	50,420	-	-	50,420	(50,420)	-
<b>Total assets</b>	<b>\$ 48,809,071</b>	<b>\$ 7,893,928</b>	<b>\$ 56,702,999</b>	<b>\$ 20,687,590</b>	<b>\$ 10,600</b>	<b>\$ 40,204</b>	<b>\$ 20,738,394</b>	<b>\$ (20,687,590)</b>	<b>\$ 50,804</b>
<b>Liabilities</b>									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ 2,500	\$ -	\$ 2,500
Due to component units	-	-	-	807,509	-	-	807,509	(807,509)	-
Due to other funds	-	-	-	19,738,671	-	-	19,738,671	(19,738,671)	-
Accrued liabilities and other	-	-	-	141,410	-	7,204	148,614	(141,410)	7,204
Unearned revenue	-	-	-	-	-	33,000	33,000	-	33,000
Cash bonds and deposits	-	-	-	-	8,100	-	8,100	-	8,100
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 20,687,590</b>	<b>\$ 10,600</b>	<b>\$ 40,204</b>	<b>\$ 20,738,394</b>	<b>\$ (20,687,590)</b>	<b>\$ 50,804</b>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 48,809,071</b>	<b>\$ 7,893,928</b>	<b>\$ 56,702,999</b>						

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended June 30, 2016

	Firemen and Policemen Retirement System	Retiree Health Care	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,001,454	\$ -	\$ 1,001,454
Net decrease in fair value of investments	(1,905,569)	(45,551)	(1,951,120)
Investment-related expenses	(218,199)	-	(218,199)
Contributions:			
Employer	1,424,943	2,974,991	4,399,934
Employee	242,042	-	242,042
Total contributions	<u>1,666,985</u>	<u>2,974,991</u>	<u>4,641,976</u>
Total additions	544,671	2,929,440	3,474,111
<b>Deductions</b>			
Benefit payments	4,659,822	2,683,133	7,342,955
Administrative expenses	37,621	79,797	117,418
Total deductions	<u>4,697,443</u>	<u>2,762,930</u>	<u>7,460,373</u>
<b>Net (Decrease) Increase in Net Position Held in Trust</b>	(4,152,772)	166,510	(3,986,262)
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	<u>52,961,843</u>	<u>7,727,418</u>	<u>60,689,261</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<u>\$ 48,809,071</u>	<u>\$ 7,893,928</u>	<u>\$ 56,702,999</u>