

City of Mount Clemens, Michigan

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

City of Mount Clemens, Michigan

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City of Mount Clemens, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Mount Clemens, 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 Mount Clemens, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2016, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other postemployment benefits schedules of funding progress and employer contributions, schedule of changes in the City net pension liability and related ratios, schedule of City contributions, schedule of investment returns, and the budgetary comparison schedules for the General Fund and each major special revenue fund 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 Mount Clemens, 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, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

December 13, 2016

City of Mount Clemens, Michigan

Management's Discussion and Analysis

Introduction

This discussion and analysis is included with the City of Mount Clemens, Michigan's (the "City") financial report to provide an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements.

Overview of this Annual Report

The basic financial statements section of this report consists of the government-wide financial statements, fund financial statements, and notes to the financial statements. The notes section is to be read in conjunction with, and is an integral part of, each financial statement included within both series.

The first series provides information about the governmental and business-type activities of the City of Mount Clemens, Michigan. There are two statements in each series, a statement of net position and a statement of activities. These two statements are presented on a full accrual basis which is designed to present a longer-term view of the City's finances. Unlike the more traditional fund-based financial statements, these statements reflect the City's investment in capital assets net of depreciation as an asset, noncurrent liabilities as liabilities, and the current period depreciation as expenditures.

The second of these two series consists of the more traditional fund-based financial statements. It is grouped by governmental funds, proprietary funds, fiduciary funds, and component units. These statements illustrate how the services provided by the City were financed in the short term. These fund-based financial statements report the City's operations in more detail than the government-wide financial statements.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following tables show, in a condensed format, the current year's net position and changes in net position compared to the prior year:

| | Governmental Activities | | | Percent Change |
|----------------------------|-------------------------|----------------------|---------------------|-------------------|
| | 2015 | 2016 | Change | |
| Assets | | | | |
| Other assets | \$ 6,835,851 | \$ 6,592,659 | \$ (243,192) | -4% |
| Capital assets | 11,983,584 | 11,347,759 | (635,825) | -5% |
| Total assets | 18,819,435 | 17,940,418 | (879,017) | -5% |
| Deferred Outflows | 1,528,663 | 3,321,580 | 1,792,917 | 117% |
| Liabilities | | | | |
| Current liabilities | 596,561 | 680,381 | 83,820 | 14% |
| Long-term liabilities | 8,539,949 | 9,806,530 | 1,266,581 | 15% |
| Total liabilities | 9,136,510 | 10,486,911 | 1,350,401 | 15% |
| Deferred Inflows | 216,569 | 253,259 | 36,690 | 17% |
| Net Position | | | | |
| Invested in capital assets | 9,902,553 | 9,367,679 | (534,874) | -5% |
| Restricted | 1,996,151 | 1,931,364 | (64,787) | -3% |
| Unrestricted | (903,685) | (777,215) | 126,470 | -14% |
| Total net position | <u>\$ 10,995,019</u> | <u>\$ 10,521,828</u> | <u>\$ (473,191)</u> | -4% |

Total net position related to the City's governmental activities decreased by approximately \$473,000, which is a 4 percent decrease. The decrease is primarily a result of the increase of net pension liability.

The City continues to record its net other postemployment obligation liability in accordance with Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement's rules cause the government-wide statements to recognize the cost of providing retiree healthcare coverage, as well as any "other" postemployment benefits (other than pensions), over the working life of the employee, rather than at the time the healthcare premiums are paid. The method of accounting was implemented on June 30, 2009 and resulted in an additional liability recorded in the governmental activities of \$670,366 in the year of implementation, which has since increased to \$5.7 million.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

| | Governmental Activities | | | Percent |
|-------------------------------|----------------------------|----------------------------|--------------------------|---------|
| | 2015 | 2016 | Change | Change |
| Revenue | | | | |
| Program revenue: | | | | |
| Charges for services | \$ 1,395,858 | \$ 906,745 | \$ (489,113) | -35% |
| Operating grants | 1,521,128 | 1,434,969 | (86,159) | -6% |
| Capital grants | 1,180,000 | - | (1,180,000) | -100% |
| General revenue: | | | | |
| Property taxes | 4,770,650 | 6,754,058 | 1,983,408 | 42% |
| State-shared revenue | 1,754,476 | 1,753,325 | (1,151) | 0% |
| Investment earnings | 11,295 | 9,732 | (1,563) | -14% |
| Other revenue | <u>949,232</u> | <u>955,784</u> | <u>6,552</u> | 1% |
| Total revenue | 11,582,639 | 11,814,613 | 231,974 | 2% |
| Program Expenses | | | | |
| General government | 4,772,395 | 3,543,628 | (1,228,767) | -26% |
| Public safety | 5,364,093 | 5,318,484 | (45,609) | -1% |
| Public works | 1,974,097 | 3,004,365 | 1,030,268 | 52% |
| Recreation and cultural | <u>348,155</u> | <u>296,869</u> | <u>(51,286)</u> | -15% |
| Total expenses | 12,458,740 | 12,163,346 | (295,394) | -2% |
| Transfers | <u>(90,000)</u> | <u>(124,458)</u> | <u>(34,458)</u> | 38% |
| Change in Net Position | <u>\$ (966,101)</u> | <u>\$ (473,191)</u> | <u>\$ 492,910</u> | -51% |

The City's three largest revenue items are property taxes at 57.2 percent of total revenue, state-shared revenue at 14.8 percent, and operating grants at 12.1 percent.

Property taxes, the largest source of general government revenue, experienced an increase of approximately 42 percent due to the Charter Amendment passed by the voters of the community which raised the ad valorem property tax authority from 15 mills to 20 mills; due to a Headlee rollback, the actual levy was 13.7970 mills.

State-shared revenue, the City's second largest source of general government revenue, showed an approximate \$1,000 decrease from the previous year and still continues at the reduced levels of recent years. The amount received from the State of Michigan as of June 30, 2016 was \$1.753 million, or 32 percent less than what the City received in the 2002 fiscal year. The City realizes that there are no guarantees that further revenue-sharing cuts will not be made as the state's economy continues to impact the revenue-sharing payments. Public Act 84 of 2015 for City, Village, and Township Revenue Sharing replaces Public Act 63 of 2011 (EVIP). An eligible city, village, or township will receive an amount for fulfilling the required documents. The City's compliance with Public Act 84 allows the City to receive \$554,891 of statutory revenue-sharing dollars.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

In past years the City has experienced declining revenue, and in response, the City reduced the full-time staff. Since 1999, the City reduced staff from 159 to 61. To accomplish the reduction, the City did not fill vacant positions resulting from retirement and reorganized. In 2005, the City had a fund balance of only \$688,000. With the City's foresight and thorough review of processes and reorganization, the City was able to make several changes without increasing taxes or fees to the community. Savings were accomplished in part by the City disbanding the police department in 2005 and contracting with the Macomb County Sheriff's Department. This contract will continue to provide long-lasting effects to the City's sustained success in providing public safety to its community.

In the City's General Fund, 39 percent of expenses are outsourced. Current outsourcing includes the assessor, police, dispatch, engineering, legal services, information technology, recreation, the inspection department, and building maintenance, which includes janitorial services, cable TV in the schools, and parking lot snow removal. All of these outsourced services are continually reviewed to ensure the maximum savings for our community. By contracting these services, the City's residents receive quality services while saving money, and the City eliminates the legacy costs associated with these positions.

The City implemented Medicare Advantage plans effective July 1, 2015 with the objective of better managing retiree health costs, reducing administrative processes, and reducing the OPEB liability. Introducing the Medicare Advantage plans disqualified the City from the Retiree Drug Subsidy program, but the net premium costs are favorable to the City and eliminated the administrative processes associated with the Retiree Drug Subsidy. Finally, the City's OPEB liability was lowered as a result of introducing the Medicare Advantage plans since the actuarial valuation can consider the lower premiums, but cannot consider Retiree Drug Subsidy payments.

With the challenging financial landscape, the City's departments need to be recognized for the diligence in adhering to their budgets and finding new ways to control expenses.

Under governmental activities program expenses, public safety accounted for 43.7 percent of expenditures. General government expenditures are the next most significant, accounting for 29.1 percent of total expenditures. Finally, public works makes up 24.7 percent of the City's expenditures. Over the past five years, the City has experienced significantly lower public safety expenses as a result of contracting police services through the Macomb County Sheriff's Department.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The following tables show, in a condensed format, the current year's net position and changes in net position compared to the prior years.

| | Business-type Activities | | | |
|----------------------------------|--------------------------|----------------------|---------------------|----------------|
| | 2015 | 2016 | Change | Percent Change |
| Assets | | | | |
| Other assets | \$ 4,335,622 | \$ 4,877,072 | \$ 541,450 | 12% |
| Capital assets | <u>52,665,350</u> | <u>50,530,896</u> | <u>(2,134,454)</u> | -4% |
| Total assets | 57,000,972 | 55,407,968 | (1,593,004) | -3% |
| Deferred Outflows | 514,135 | 857,025 | 342,890 | 67% |
| Liabilities | | | | |
| Current liabilities | 1,664,563 | 1,787,467 | 122,904 | 7% |
| Long-term liabilities | <u>19,177,081</u> | <u>16,731,237</u> | <u>(2,445,844)</u> | -13% |
| Total liabilities | 20,841,644 | 18,518,704 | (2,322,940) | -11% |
| Deferred Inflows | <u>71,144</u> | <u>57,677</u> | <u>(13,467)</u> | -19% |
| Net Position | | | | |
| Net investment in capital assets | 35,157,357 | 35,855,462 | 698,105 | 2% |
| Restricted | 494,125 | 502,875 | 8,750 | 2% |
| Unrestricted | <u>950,837</u> | <u>1,330,275</u> | <u>379,438</u> | -40% |
| Total net position | <u>\$ 36,602,319</u> | <u>\$ 37,688,612</u> | <u>\$ 1,086,293</u> | 3% |

| | Business-type Activities | | | |
|---|--------------------------|---------------------|---------------------|----------------|
| | 2015 | 2016 | Change | Percent Change |
| Operating Revenue | \$ 10,489,690 | \$ 10,793,033 | \$ 303,343 | 3% |
| Operating Expenses - Other than depreciation | 6,559,678 | 7,004,427 | 444,749 | 7% |
| Depreciation and Amortization | <u>2,359,844</u> | <u>2,385,386</u> | <u>25,542</u> | 1% |
| Operating income | 1,570,168 | 1,403,220 | (166,948) | -11% |
| Property Tax Revenue | 97,431 | 98,527 | 1,096 | 1% |
| Interest Income | 8,520 | 6,845 | (1,675) | -20% |
| Interest Expense | 564,729 | 546,757 | (17,972) | -3% |
| Transfers | <u>90,000</u> | <u>124,458</u> | <u>34,458</u> | 38% |
| Change in Net Position | <u>\$ 1,201,390</u> | <u>\$ 1,086,293</u> | <u>\$ (115,097)</u> | -10% |

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City's business-type activities include water, sewer, sanitation, auto parking, and the Ice Arena. The City provides water and sewer services through its own water plant and sewage treatment plant. The Ice Arena is owned by the City, but is operated by a management company. The Ice Arena's operating results cover all expenses and the debt payments relating to the building of the Ice Arena. These bonds were defeased in a previous year, which lowered the interest rate and produced savings for the City, the management company, and the customers. The final bond payment for the Ice Arena was made in 2016.

Water and Sewer Fund - The Water and Sewer Fund's financial performance has been sound but has also faced some financial difficulties due to capital projects, a decline in consumption, and recording the liability of postemployment benefits other than pensions. Due to financial difficulties, the City reviews the rates annually during the budget process. Rates were increased by 12 percent in 2016 and 9 percent in 2015. Expenses are continuously reviewed and discussed with the City Commission.

In reviewing the City's net position for business-type activities, the net investment in capital assets increased by 2 percent. Liabilities were also reduced by 11 percent due to the reduction of long-term debt. Total net position of the business-type activities showed an increase of \$1.1 million.

The City's Funds

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The City's major governmental fund is the General Fund; all other funds are reported as nonmajor funds. The other supplemental information includes combining schedules that present the individual nonmajor funds. All of the City's enterprise funds are presented as major funds.

The General Fund pays for most of the City's governmental services. The most significant services of 2016 were police (\$3.35 million), fire (\$1.34 million), and general government services of \$2.09 million.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity on a modified accrual basis:

| | Governmental Funds | | | | Percent Change |
|--|---------------------|---------------------|---------------------|--------------------|-------------------|
| | 2014 | 2015 | 2016 | Change | |
| Revenue | | | | | |
| Property taxes and income taxes | \$ 4,847,479 | \$ 4,735,410 | \$ 6,709,318 | \$ 1,973,908 | 42% |
| Charges for services | 1,057,548 | 1,105,340 | 1,096,050 | (9,290) | -1% |
| Licenses and permits | 269,998 | 628,418 | 309,327 | (319,091) | -51% |
| State-shared revenue | 1,725,269 | 1,754,476 | 1,753,325 | (1,151) | 0% |
| Act 51 funding | 668,475 | 746,530 | 742,005 | (4,525) | -1% |
| Federal, state, and local grants | 682,919 | 1,939,331 | 626,848 | (1,312,483) | -68% |
| Fines and forfeitures | 145,451 | 138,255 | 5,362 | (132,893) | -96% |
| Interest and rentals | 10,614 | 11,239 | 9,709 | (1,530) | -14% |
| Special assessments | 60,500 | 55,780 | 55,473 | (307) | -1% |
| Other | 503,961 | 467,891 | 435,669 | (32,222) | -7% |
| Total revenue | 9,972,214 | 11,582,670 | 11,743,086 | 160,416 | 1% |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 1,813,165 | 1,818,155 | 2,089,299 | 271,144 | 15% |
| Public safety | 4,402,026 | 4,562,054 | 4,469,460 | (92,594) | -2% |
| Public works | 2,090,472 | 3,375,458 | 2,085,099 | (1,290,359) | -38% |
| Recreation and culture | 237,364 | 291,166 | 217,538 | (73,628) | -25% |
| Other functions | 1,718,520 | 2,070,226 | 1,844,582 | (225,644) | -11% |
| Total expenditures | 10,261,547 | 12,117,059 | 10,705,978 | (1,411,081) | -12% |
| Excess of Revenue (Under) Over Expenses | (289,333) | (534,389) | 1,037,108 | 1,571,497 | -294% |
| Transfers - Net | (90,000) | (90,000) | (124,458) | (34,458) | 38% |
| Net Change in Fund Balances | (379,333) | (624,389) | 912,650 | 1,537,039 | -246% |
| Fund Balances - Beginning of year | 5,156,339 | 4,777,006 | 4,152,617 | (624,389) | -13% |
| Fund Balances - End of year | \$ 4,777,006 | \$ 4,152,617 | \$ 5,065,267 | \$ 912,650 | 22% |

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year, such as lower than anticipated expenditures primarily due to unfilled budgeted staff positions.

Total expenditures decreased by 12 percent, and the total net change in fund balance was an increase of \$912,650.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

In a 2006, the City recorded its interest in debt related to the construction of the new 41B District Court building. Debt to finance the building was issued by the Charter Township of Clinton and is allocated among participating communities in proportion to the volume of cases attributable to each community. The City's portion of the debt at June 30, 2016 is \$1,882,410.

In the current year, the City refunded the outstanding balance of the 2003 Parking Improvement Bonds by issuing \$2,713,000 of bonds at a lower interest rate. Please see Note 6 - Long-term Debt for additional information.

Economic Factors and Next Year's Budgets and Rates

On August 5, 2014, voters of the community passed a Charter Amendment which raised the ad valorem property tax authority from 15 mills to 20 mills; due to a Headlee rollback, the actual levy was 13.7970 mills. 56 percent of the voters supported this increase. The City Commission voted during the 2016 FY budget process to increase the millage rate to the full 20 mills. The impact on the revenue allowed the City Commission to approve much needed capital investments for the General Fund, Public Works Department, Fire Department, and to create a Sidewalk Safety Fund. Along with these projects, the City will also begin to rebuild fund balance in the General Fund.

State-shared revenue has been stable in recent years (2016 - (\$1,151), 2015 - \$24,680) and slight increases are projected for future years.

Through the use of long-term planning, the City will evaluate and monitor its budget, plan for future capital investments, and make adjustments based on the economic conditions.

During the year ended June 30, 2016, one union contract was renewed through June 30, 2018. At June 30, 2016, three of the four remaining union contracts had ended and were in active negotiations. The hopes were to have all union contracts completed by the end of calendar year 2016.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors 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 clerk's office at (586) 469-6818.

City of Mount Clemens, Michigan

Statement of Net Position June 30, 2016

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------|-----------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 4,595,520 | \$ 3,019,298 | \$ 7,614,818 | \$ 158,653 |
| Investments (Note 3) | - | 299,598 | 299,598 | - |
| Receivables: | | | | |
| Property taxes receivable | 128,885 | - | 128,885 | - |
| Customers | - | 1,394,141 | 1,394,141 | 1,660 |
| Other receivables | 338,981 | 173,173 | 512,154 | - |
| Due from other governmental units | 589,064 | - | 589,064 | - |
| Allowance for doubtful accounts | (70,000) | - | (70,000) | - |
| Internal balances (Note 5) | 613,567 | (613,567) | - | - |
| Inventory | - | 6,694 | 6,694 | - |
| Prepaid expenses | 111,286 | 58,755 | 170,041 | 5,200 |
| Restricted assets (Note 6) | - | 538,980 | 538,980 | - |
| Investment in joint ventures (Note 14) | 266,903 | - | 266,903 | - |
| Other current assets | 18,453 | - | 18,453 | - |
| Capital assets (Note 4): | | | | |
| Assets not subject to depreciation | 2,791,978 | 3,637,078 | 6,429,056 | 151,892 |
| Assets subject to depreciation | 8,555,781 | 46,893,818 | 55,449,599 | - |
| Total assets | 17,940,418 | 55,407,968 | 73,348,386 | 317,405 |
| Deferred Outflows of Resources | | | | |
| Bond refunding loss being amortized | - | 100,565 | 100,565 | - |
| Deferred outflows related to pension (Note 12) | 3,321,580 | 756,460 | 4,078,040 | - |
| Total deferred outflows of resources | 3,321,580 | 857,025 | 4,178,605 | - |
| Liabilities | | | | |
| Accounts payable | 422,638 | 186,865 | 609,503 | 48,155 |
| Due to other governmental units | 3,210 | - | 3,210 | - |
| Accrued and other liabilities | 254,533 | 187,374 | 441,907 | - |
| Unearned revenue | - | 957,748 | 957,748 | - |
| Noncurrent liabilities: | | | | |
| Due within one year (Note 6): | | | | |
| Payable from restricted assets | - | 455,480 | 455,480 | - |
| Compensated absences | 300,000 | 61,751 | 361,751 | - |
| Current portion of long-term debt | 124,727 | 2,490,924 | 2,615,651 | - |
| Due in more than one year: | | | | |
| Compensated absences (Note 6) | 273,494 | 24,443 | 297,937 | - |
| Accrued settlement (Note 7) | 870,000 | - | 870,000 | - |
| Net OPEB obligation (Note 13) | 5,660,015 | 2,224,341 | 7,884,356 | - |
| Net pension obligation (Note 12) | 722,941 | 164,643 | 887,584 | - |
| Long-term debt (Note 6) | 1,855,353 | 11,765,135 | 13,620,488 | - |
| Total liabilities | 10,486,911 | 18,518,704 | 29,005,615 | 48,155 |
| Deferred Inflows Related to Pension (Note 12) | 253,259 | 57,677 | 310,936 | - |
| Net Position | | | | |
| Net investment in capital assets | 9,367,679 | 35,855,462 | 45,223,141 | 151,892 |
| Restricted for: | | | | |
| Streets | 1,451,331 | - | 1,451,331 | - |
| Debt service | 236,197 | - | 236,197 | - |
| Transportation | 209,294 | - | 209,294 | - |
| Public improvement | 34,542 | - | 34,542 | - |
| Revenue bond ordinance | - | 502,875 | 502,875 | - |
| Unrestricted | (777,215) | 1,330,275 | 553,060 | 117,358 |
| Total net position | \$ 10,521,828 | \$ 37,688,612 | \$ 48,210,440 | \$ 269,250 |

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

City of Mount Clemens, Michigan

| Functions/Programs | Expenses | Program Revenue | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 3,543,628 | \$ 337,320 | \$ 266,711 | \$ - |
| Public safety | 5,318,484 | 439,909 | - | - |
| Public works | 3,004,365 | 88,353 | 1,168,258 | - |
| Recreation and culture | 296,869 | 41,163 | - | - |
| Total governmental activities | 12,163,346 | 906,745 | 1,434,969 | - |
| Business-type activities: | | | | |
| Sewage disposal system | 4,460,487 | 4,433,781 | - | - |
| Water supply system | 2,660,229 | 3,303,421 | - | - |
| Sanitary system | 909,856 | 816,336 | - | - |
| Automobile parking system | 601,304 | 672,055 | - | - |
| Ice Arena | 1,304,694 | 1,567,440 | - | - |
| Total business-type activities | 9,936,570 | 10,793,033 | - | - |
| Total primary government | <u>\$ 22,099,916</u> | <u>\$ 11,699,778</u> | <u>\$ 1,434,969</u> | <u>\$ -</u> |
| Component unit - Downtown Development Authority | <u>\$ 377,474</u> | <u>\$ 71,401</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenue: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Unrestricted investment earnings | | | | |
| Franchise fees | | | | |
| Miscellaneous | | | | |
| Total general revenue | | | | |
| Transfers (Note 5) | | | | |
| Change in Net Position | | | | |
| Net Position - Beginning of year | | | | |
| Net Position - End of year | | | | |

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 |
| \$ (2,939,597) | \$ - | \$ (2,939,597) | \$ - |
| (4,878,575) | - | (4,878,575) | - |
| (1,747,754) | - | (1,747,754) | - |
| (255,706) | - | (255,706) | - |
| (9,821,632) | - | (9,821,632) | - |
| - | (26,706) | (26,706) | - |
| - | 643,192 | 643,192 | - |
| - | (93,520) | (93,520) | - |
| - | 70,751 | 70,751 | - |
| - | 262,746 | 262,746 | - |
| - | 856,463 | 856,463 | - |
| (9,821,632) | 856,463 | (8,965,169) | - |
| - | - | - | (306,073) |
| 6,754,058 | 98,527 | 6,852,585 | 200,487 |
| 1,753,325 | - | 1,753,325 | - |
| 9,732 | 6,845 | 16,577 | - |
| 284,727 | - | 284,727 | - |
| 671,057 | - | 671,057 | - |
| 9,472,899 | 105,372 | 9,578,271 | 200,487 |
| (124,458) | 124,458 | - | - |
| (473,191) | 1,086,293 | 613,102 | (105,586) |
| 10,995,019 | 36,602,319 | 47,597,338 | 374,836 |
| \$ 10,521,828 | \$ 37,688,612 | \$ 48,210,440 | \$ 269,250 |

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2016

| | General Fund | Major Streets and Trunklines | Nonmajor Funds | Total |
|---|---------------------|---------------------------------|---------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 2,468,853 | \$ 782,848 | \$ 1,105,475 | \$ 4,357,176 |
| Receivables: | | | | |
| Taxes | 128,885 | - | - | 128,885 |
| Other receivables | 291,314 | - | 46,614 | 337,928 |
| Other governmental units | 394,114 | 111,208 | 83,742 | 589,064 |
| Allowance for doubtful accounts | (70,000) | - | - | (70,000) |
| Advances to other funds (Note 5) | 613,567 | - | - | 613,567 |
| Prepaid expenses | 104,319 | - | 4,258 | 108,577 |
| Other current assets | 18,453 | - | - | 18,453 |
| | <u>\$ 3,949,505</u> | <u>\$ 894,056</u> | <u>\$ 1,240,089</u> | <u>\$ 6,083,650</u> |
| Total assets | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 239,201 | \$ 100,736 | \$ 69,408 | \$ 409,345 |
| Due to other governmental units | - | - | 3,210 | 3,210 |
| Accrued and other liabilities | 222,395 | 9,414 | 18,037 | 249,846 |
| | <u>461,596</u> | <u>110,150</u> | <u>90,655</u> | <u>662,401</u> |
| Total liabilities | | | | |
| Deferred Inflows of Resources - | | | | |
| Unavailable revenue | 355,982 | - | - | 355,982 |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepays | 104,319 | - | 4,258 | 108,577 |
| Long-term receivable | 613,567 | - | - | 613,567 |
| Restricted: | | | | |
| Right-of-way maintenance | - | 103,905 | 225,054 | 328,959 |
| Street construction | - | 680,001 | 442,371 | 1,122,372 |
| Transportation | - | - | 205,036 | 205,036 |
| Public improvement | - | - | 34,542 | 34,542 |
| Assigned: | | | | |
| Local street construction | - | - | 100,000 | 100,000 |
| Sidewalks | - | - | 48,173 | 48,173 |
| Retiree healthcare trust | 50,000 | - | - | 50,000 |
| Capital outlay | 100,000 | - | - | 100,000 |
| Transportation | - | - | 90,000 | 90,000 |
| Unassigned | 2,264,041 | - | - | 2,264,041 |
| | <u>3,131,927</u> | <u>783,906</u> | <u>1,149,434</u> | <u>5,065,267</u> |
| Total fund balances | | | | |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 3,949,505</u> | <u>\$ 894,056</u> | <u>\$ 1,240,089</u> | <u>\$ 6,083,650</u> |

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

City of Mount Clemens, Michigan

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

| | |
|--|-----------------------------|
| Fund Balance Reported in Governmental Funds | \$ 5,065,267 |
| 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 | 10,692,052 |
| Investments in joint ventures are not financial resources and are not reported in the funds | 266,903 |
| Certain receivables are expected to be collected over several years and are not available | 355,982 |
| Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds | (1,882,410) |
| 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 | (552,352) |
| The current cost of other postemployment benefits is not due and payable in the current period and is not reported in the funds | (5,660,015) |
| Other long-term liabilities, such as claims and judgments and landfill closure and postclosure costs, do not present a claim on current financial resources and are not reported as fund liabilities | (870,000) |
| Net pension obligation is not a current financial resource and is not reported in the funds | (722,941) |
| Deferred outflows and inflows related to pensions are not current financial resources/current period liabilities and are not reported in the funds | 3,068,321 |
| Internal Service Funds are included as part of governmental activities | <u>761,021</u> |
| Net Position of Governmental Activities | <u>\$ 10,521,828</u> |

City of Mount Clemens, Michigan

Governmental Funds

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

| | Major Fund - General Fund | Major Streets and Trunklines | Nonmajor Funds | Total |
|--|------------------------------|------------------------------------|----------------------------|----------------------------|
| Revenue | | | | |
| Property taxes | \$ 6,414,868 | \$ - | \$ 294,450 | \$ 6,709,318 |
| Licenses and permits | 309,327 | - | - | 309,327 |
| Federal entitlement and grant revenue | 22,614 | - | - | 22,614 |
| State-shared grants and other revenue | 1,954,799 | 804,675 | 340,090 | 3,099,564 |
| Charges for services | 993,381 | 11,880 | 90,789 | 1,096,050 |
| Fines and fees | 5,362 | - | - | 5,362 |
| Investment income | 5,861 | 2,637 | 1,211 | 9,709 |
| Other revenue: | | | | |
| Special assessments | - | - | 55,473 | 55,473 |
| Other miscellaneous revenue | 256,656 | 2,063 | 176,950 | 435,669 |
| Total revenue | <u>9,962,868</u> | <u>821,255</u> | <u>958,963</u> | <u>11,743,086</u> |
| Expenditures - Current | | | | |
| General government | 2,089,299 | - | - | 2,089,299 |
| Public safety | 4,469,460 | - | - | 4,469,460 |
| Public works | 395,127 | 881,919 | 808,053 | 2,085,099 |
| Recreation | 217,538 | - | - | 217,538 |
| Other functions | 1,844,582 | - | - | 1,844,582 |
| Total expenditures | <u>9,016,006</u> | <u>881,919</u> | <u>808,053</u> | <u>10,705,978</u> |
| Excess of Revenue Over (Under) | | | | |
| Expenditures | 946,862 | (60,664) | 150,910 | 1,037,108 |
| Other Financing Sources (Uses) | | | | |
| Transfers in (Note 5) | - | - | 50,000 | 50,000 |
| Transfers out (Note 5) | (174,458) | - | - | (174,458) |
| Net Change in Fund Balances | 772,404 | (60,664) | 200,910 | 912,650 |
| Fund Balances - Beginning of year | <u>2,359,523</u> | <u>844,570</u> | <u>948,524</u> | <u>4,152,617</u> |
| Fund Balances - End of year | <u>\$ 3,131,927</u> | <u>\$ 783,906</u> | <u>\$ 1,149,434</u> | <u>\$ 5,065,267</u> |

City of Mount Clemens, 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 | \$ 912,650 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capital outlay | 112,497 |
| Depreciation expense | (598,408) |
| 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 | 66,116 |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 55,590 |
| Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment | 149,433 |
| Decrease in liability for landfill closure and postclosure costs is recorded when incurred in the statement of activities | 30,000 |
| The current cost of other postemployment benefits is recorded when incurred in the statement of activities | (828,295) |
| Losses from joint ventures are not recorded in the funds | (156,860) |
| Change in net pension obligation reported in the statement of activities does not impact current financial resources and therefore is not reported in the funds | (136,942) |
| Internal Service Funds are included as part of governmental activities | (78,972) |
| Change in Net Position of Governmental Activities | <u>\$ (473,191)</u> |

City of Mount Clemens, Michigan

| | Enterprise Funds | | | |
|--|------------------------|---------------------|---------------------|---------------------------|
| | Sewage Disposal System | Water Supply System | Sanitary Department | Automobile Parking System |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 3) | \$ 1,954,482 | \$ 545,046 | \$ 400,886 | \$ 42,930 |
| Investments (Note 3) | - | - | 299,598 | - |
| Receivables: | | | | |
| Customers | 803,344 | 590,708 | 89 | - |
| Other receivables | 101,018 | 4,080 | 28,684 | 39,391 |
| Inventory | 6,694 | - | - | - |
| Prepaid expenses and other assets | 12,647 | 11,446 | 3,646 | 1,641 |
| Total current assets | 2,878,185 | 1,151,280 | 732,903 | 83,962 |
| Noncurrent assets: | | | | |
| Restricted assets (Note 6) | - | 538,980 | - | - |
| Advances to other funds (Note 5) | 708,549 | - | - | - |
| Capital assets (Note 4): | | | | |
| Assets not subject to depreciation | - | - | - | 3,637,078 |
| Assets subject to depreciation | 30,271,178 | 12,703,396 | - | 1,361,637 |
| Total noncurrent assets | 30,979,727 | 13,242,376 | - | 4,998,715 |
| Total assets | 33,857,912 | 14,393,656 | 732,903 | 5,082,677 |
| Deferred Outflows of Resources | | | | |
| Bond refunding loss being amortized | - | - | - | 100,565 |
| Deferred outflows related to pension (Note 12) | 398,061 | 246,292 | 33,974 | 78,133 |
| Total deferred outflows of resources | 398,061 | 246,292 | 33,974 | 178,698 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 85,713 | 32,873 | 51,178 | 1,835 |
| Accrued liabilities and other | 69,469 | 20,707 | 2,990 | 67,824 |
| Unearned revenue | 957,748 | - | - | - |
| Compensated absences (Note 6) | 13,679 | 37,234 | 7,988 | 2,850 |
| Current portion of long-term debt (Note 6) | 1,317,799 | 523,125 | - | 650,000 |
| Total current liabilities | 2,444,408 | 613,939 | 62,156 | 722,509 |
| Noncurrent liabilities: | | | | |
| Advances from other funds (Note 5) | - | 708,549 | - | - |
| Payable from restricted assets (Note 6) | - | 455,480 | - | - |
| Compensated absences (Note 6) | 1,946 | 16,137 | 3,286 | 3,074 |
| Net OPEB obligation (Note 13) | 1,250,016 | 974,325 | - | - |
| Net pension liability (Note 12) | 86,638 | 53,606 | 7,394 | 17,005 |
| Long-term debt - Net of current portion (Note 6) | 4,516,092 | 4,886,043 | - | 2,363,000 |
| Total noncurrent liabilities | 5,854,692 | 7,094,140 | 10,680 | 2,383,079 |
| Total liabilities | 8,299,100 | 7,708,079 | 72,836 | 3,105,588 |
| Deferred Inflows of Resources - | | | | |
| Deferred inflows related to pension (Note 12) | 30,351 | 18,779 | 2,589 | 5,958 |
| Net Position | | | | |
| Net investment in capital assets | 24,437,287 | 6,874,853 | - | 1,985,715 |
| Restricted for revenue bond ordinance | - | 502,875 | - | - |
| Unrestricted | 1,489,235 | (464,638) | 691,452 | 164,114 |
| Total net position | \$ 25,926,522 | \$ 6,913,090 | \$ 691,452 | \$ 2,149,829 |

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

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

| Enterprise Funds | | Governmental Activities |
|---------------------|---------------------------|---|
| Ice Arena | Total Enterprise Funds | Proprietary Internal Service Fund |
| \$ 75,954 | \$ 3,019,298 | \$ 238,344 |
| - | 299,598 | - |
| - | 1,394,141 | - |
| - | 173,173 | 1,053 |
| - | 6,694 | - |
| 29,375 | 58,755 | 2,709 |
| 105,329 | 4,951,659 | 242,106 |
| - | 538,980 | - |
| - | 708,549 | - |
| - | 3,637,078 | - |
| 2,557,607 | 46,893,818 | 655,707 |
| 2,557,607 | 51,778,425 | 655,707 |
| 2,662,936 | 56,730,084 | 897,813 |
| - | 100,565 | - |
| - | 756,460 | - |
| - | 857,025 | - |
| 15,266 | 186,865 | 13,293 |
| 26,384 | 187,374 | 4,687 |
| - | 957,748 | - |
| - | 61,751 | - |
| - | 2,490,924 | 47,717 |
| 41,650 | 3,884,662 | 65,697 |
| 613,567 | 1,322,116 | - |
| - | 455,480 | - |
| - | 24,443 | 21,142 |
| - | 2,224,341 | - |
| - | 164,643 | - |
| - | 11,765,135 | 49,953 |
| 613,567 | 15,956,158 | 71,095 |
| 655,217 | 19,840,820 | 136,792 |
| - | 57,677 | - |
| 2,557,607 | 35,855,462 | 558,037 |
| - | 502,875 | - |
| (549,888) | 1,330,275 | 202,984 |
| \$ 2,007,719 | \$ 37,688,612 | \$ 761,021 |

City of Mount Clemens, Michigan

| | Enterprise Funds | | | |
|--|------------------------|---------------------|---------------------|---------------------------|
| | Sewage Disposal System | Water Supply System | Sanitary Department | Automobile Parking System |
| Operating Revenue | | | | |
| Customer billings | \$ 4,364,629 | \$ 3,132,139 | \$ 788,624 | \$ 639,376 |
| Billings to other funds | - | - | - | - |
| Other revenue | 69,152 | 171,282 | 27,712 | 32,679 |
| Total operating revenue | 4,433,781 | 3,303,421 | 816,336 | 672,055 |
| Operating Expenses | | | | |
| Cost of materials | 113,049 | 165,940 | 2,185 | 42,412 |
| Water supply and sewage disposal | 1,818,902 | 1,062,999 | - | - |
| Maintenance and operations | - | - | 847,671 | 184,282 |
| General and administrative | 966,652 | 615,881 | 60,000 | - |
| Depreciation and amortization | 1,380,574 | 660,294 | - | 185,697 |
| Total operating expenses | 4,279,177 | 2,505,114 | 909,856 | 412,391 |
| Operating Income (Loss) | 154,604 | 798,307 | (93,520) | 259,664 |
| Nonoperating Revenue (Expense) | | | | |
| Property tax revenue | - | - | 98,527 | - |
| Investment income | 2,203 | 558 | 4,084 | - |
| Interest expense | (181,310) | (155,115) | - | (188,913) |
| Total nonoperating (expense) revenue | (179,107) | (154,557) | 102,611 | (188,913) |
| (Loss) Income - Before transfers in | (24,503) | 643,750 | 9,091 | 70,751 |
| Transfers In | - | - | - | - |
| Change in Net Position | (24,503) | 643,750 | 9,091 | 70,751 |
| Net Position - Beginning of year | 25,951,025 | 6,269,340 | 682,361 | 2,079,078 |
| Net Position - End of year | \$ 25,926,522 | \$ 6,913,090 | \$ 691,452 | \$ 2,149,829 |

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2016

| Enterprise Funds | | Governmental Activities |
|---------------------|----------------------|---|
| Ice Arena | Total | Proprietary Internal Service Fund |
| \$ 1,567,440 | \$ 10,492,208 | \$ - |
| - | - | 582,781 |
| - | 300,825 | 6,237 |
| <u>1,567,440</u> | <u>10,793,033</u> | <u>589,018</u> |
| 79,983 | 403,569 | 136,547 |
| - | 2,881,901 | - |
| 1,000,931 | 2,032,884 | 295,265 |
| 43,540 | 1,686,073 | 79,052 |
| 158,821 | 2,385,386 | 149,914 |
| <u>1,283,275</u> | <u>9,389,813</u> | <u>660,778</u> |
| 284,165 | 1,403,220 | (71,760) |
| - | 98,527 | - |
| - | 6,845 | 23 |
| <u>(21,419)</u> | <u>(546,757)</u> | <u>(7,235)</u> |
| <u>(21,419)</u> | <u>(441,385)</u> | <u>(7,212)</u> |
| 262,746 | 961,835 | (78,972) |
| 124,458 | 124,458 | - |
| 387,204 | 1,086,293 | (78,972) |
| 1,620,515 | 36,602,319 | 839,993 |
| <u>\$ 2,007,719</u> | <u>\$ 37,688,612</u> | <u>\$ 761,021</u> |

City of Mount Clemens, Michigan

| | Enterprise Funds | | | |
|---|------------------------|---------------------|---------------------|---------------------------|
| | Sewage Disposal System | Water Supply System | Sanitary Department | Automobile Parking System |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 4,419,121 | \$ 3,259,600 | \$ 816,323 | \$ 672,055 |
| Payments to suppliers | (1,754,010) | (986,230) | (711,670) | (86,177) |
| Payments to employees | (741,020) | (692,041) | (98,939) | (132,539) |
| Other receipts | (19,512) | 3,525 | (23,757) | (28,630) |
| Net cash provided by (used in) operating activities | 1,904,579 | 1,584,854 | (18,043) | 424,709 |
| Cash Flows from Noncapital Financing Activities | | | | |
| Transfers from other funds | - | - | - | - |
| Advances received from other funds | - | - | - | - |
| Property taxes not restricted for capital activities | - | - | 98,527 | - |
| Net cash provided by noncapital financing activities | - | - | 98,527 | - |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchase of capital assets | (34,695) | (55,301) | - | - |
| Principal and interest paid on capital debt | (1,444,780) | (1,091,236) | - | (515,265) |
| Net cash used in capital and related financing activities | (1,479,475) | (1,146,537) | - | (515,265) |
| Cash Flows from Investing Activities | | | | |
| Interest received on investments | 2,879 | 791 | 4,084 | - |
| Purchases of investment securities | - | - | (4,084) | - |
| Net cash provided by investing activities | 2,879 | 791 | - | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 427,983 | 439,108 | 80,484 | (90,556) |
| Cash and Cash Equivalents - Beginning of year | 1,526,499 | 644,918 | 320,402 | 133,486 |
| Cash and Cash Equivalents - End of year | \$ 1,954,482 | \$ 1,084,026 | \$ 400,886 | \$ 42,930 |
| Balance Sheet Classification of Cash and Cash Equivalents | | | | |
| Cash and cash equivalents | \$ 1,954,482 | \$ 545,046 | \$ 700,484 | \$ 42,930 |
| Restricted cash and cash equivalents | - | 538,980 | - | - |
| Less amounts classified as investments | - | - | (299,598) | - |
| Total cash and cash equivalents | \$ 1,954,482 | \$ 1,084,026 | \$ 400,886 | \$ 42,930 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | |
| Operating income (loss) | \$ 154,604 | \$ 798,307 | \$ (93,520) | \$ 259,664 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation and amortization | 1,380,574 | 660,294 | - | 185,697 |
| Changes in assets and liabilities: | | | | |
| Receivables | (34,172) | (40,296) | (23,770) | (28,630) |
| Prepaid and other assets | 17,206 | 8,651 | (1,965) | 2,303 |
| Accounts payable | 44,693 | (39,688) | 33,898 | 1,224 |
| Accrued and other liabilities | 259,519 | 168,069 | 46,355 | 44,484 |
| Unearned revenue | (72,460) | (91,966) | 20,959 | (40,033) |
| Net OPEB obligation | 154,615 | 121,483 | - | - |
| Net cash provided by (used in) operating activities | \$ 1,904,579 | \$ 1,584,854 | \$ (18,043) | \$ 424,709 |

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

| Enterprise Funds | | Governmental Activities |
|-------------------|---------------------------|--------------------------------------|
| Ice Arena | Total Enterprise Funds | Proprietary Internal Service Fund |
| \$ 1,567,440 | \$ 10,734,539 | \$ 589,018 |
| (627,479) | (4,165,566) | (309,694) |
| (518,601) | (2,183,140) | (219,416) |
| - | (68,374) | 5,070 |
| 421,360 | 4,317,459 | 64,978 |
| 124,458 | 124,458 | - |
| 18,721 | 18,721 | - |
| - | 98,527 | - |
| 143,179 | 241,706 | - |
| (160,936) | (250,932) | - |
| (407,427) | (3,458,708) | (52,596) |
| (568,363) | (3,709,640) | (52,596) |
| - | 7,754 | 23 |
| - | (4,084) | - |
| - | 3,670 | 23 |
| (3,824) | 853,195 | 12,405 |
| 79,778 | 2,705,083 | 225,939 |
| \$ 75,954 | \$ 3,558,278 | \$ 238,344 |
| \$ 75,954 | \$ 3,318,896 | \$ 238,344 |
| - | 538,980 | - |
| - | (299,598) | - |
| \$ 75,954 | \$ 3,558,278 | \$ 238,344 |
| \$ 284,165 | \$ 1,403,220 | \$ (71,760) |
| 158,821 | 2,385,386 | 149,914 |
| - | (126,868) | 5,070 |
| (29,375) | (3,180) | 4,660 |
| 3,694 | 43,821 | (19,849) |
| 4,055 | 522,482 | (3,057) |
| - | (183,500) | - |
| - | 276,098 | - |
| \$ 421,360 | \$ 4,317,459 | \$ 64,978 |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

| | Pension and Other Employee Benefits Trust Fund | Agency Funds |
|---|--|--------------|
| Assets | | |
| Cash and cash equivalents (Note 3) | \$ 1,058,808 | \$ 296,022 |
| Investments (Note 3): | | |
| U.S. government securities | 2,772,397 | - |
| Mutual funds | 27,774,570 | - |
| Common stock | 13,968,629 | - |
| Corporate bonds | 4,986,580 | - |
| U.S. mortgage-backed securities | 3,035,628 | - |
| U.S. collateralized mortgage obligations | 811,708 | - |
| Corporate asset-backed securities | 1,292,026 | - |
| Corporate collateralized mortgage obligations | 2,852,253 | - |
| Private placement bonds | 171,623 | - |
| Receivables: | | |
| Miscellaneous | - | 2,484 |
| Accrued interest receivable | 171,765 | - |
| | 58,895,987 | \$ 298,506 |
| Liabilities | | |
| Accounts payable | 24,954 | \$ 577 |
| Due to other governmental units | - | 9,428 |
| Cash bonds and deposits | - | 288,501 |
| Accrued liabilities and other | 10,089 | - |
| | 35,043 | \$ 298,506 |
| Net Position Held in Trust for Pension and Other Employee Benefits | \$ 58,860,944 | |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefits Trust Fund Year Ended June 30, 2016

| | Pension and Other Employee Benefits Trust Fund |
|---|---|
| Additions | |
| Investment income: | |
| Interest and dividends | \$ 3,032,724 |
| Net decrease in fair value of investments | (1,603,078) |
| Investment-related expenses | (230,173) |
| Net investment income | 1,199,473 |
| Contributions: | |
| Employer | 700,332 |
| Employee | 219,110 |
| Total contributions | 919,442 |
| Total additions | 2,118,915 |
| Deductions | |
| Benefit payments | 4,532,037 |
| Refunds of contributions | 86,626 |
| Total deductions | 4,618,663 |
| Net Decrease in Net Position Held in Trust | (2,499,748) |
| Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year | 61,360,692 |
| Net Position Held in Trust for Pension and Other Employee Benefits - End of year | \$ 58,860,944 |

City of Mount Clemens, Michigan

Component Unit Statement of Net Position June 30, 2016

| | Downtown Development Authority |
|--|--------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 158,653 |
| Receivables from sales to customers on account | 1,660 |
| Prepaid expenses and other assets | 5,200 |
| Capital assets not subject to depreciation | 151,892 |
| Total assets | 317,405 |
| Liabilities - Accounts payable | 48,155 |
| Net Position | |
| Net investment in capital assets | 151,892 |
| Unrestricted | 117,358 |
| Total net position | <u>\$ 269,250</u> |

City of Mount Clemens, Michigan

Component Unit Statement of Activities Year Ended June 30, 2016

| Functions/Programs | Expenses | Program Revenue | | Net (Expense) | |
|-----------------------------------|-------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| Downtown Development Authority | <u>\$ 377,474</u> | <u>\$ 71,401</u> | <u>\$ -</u> | <u>\$ -</u> | Downtown Development Authority |
| | | | | | 200,487 |
| | | | | | (105,586) |
| | | | | | 374,836 |
| | | | | | <u>\$ 269,250</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Mount Clemens, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Mount Clemens, Michigan:

Reporting Entity

The City of Mount Clemens, Michigan is governed by an elected seven-member commission. 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 legally 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.

Blended Component Units - The Mount Clemens Building Authority is governed by a board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is selected by the City Commission. In addition, the DDA's budget is subject to approval by the City Commission.

The Brownfield Redevelopment Finance Authority (BRFA) was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas within the City designated as Brownfield Redevelopment Zones. The BRFA's board of directors, consisting of nine members, is selected by the City Commission. In addition, the BRFA's budget is subject to approval by the City Commission. The BRFA had no financial activity during the year or at year end.

Financial statements of the DDA and BRFA can be obtained from the administrative offices at One Crocker Blvd., Mount Clemens, MI 48043.

The City has excluded the Mount Clemens Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Principles

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

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 three 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 following funds as “major” governmental funds:

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Major Streets and Trunklines Fund, which accounts for the resources of state gas and weight tax collections and other revenue that are restricted for use on major streets.

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

- The Sewage Disposal System Fund, which accounts for the activities of the sewage collection and disposal system operated by the City.
- The Water Supply System Fund, which accounts for activities of the water treatment and distribution system operated by the City.
- The Sanitary Department Fund, which accounts for the City's garbage and rubbish disposal activities for city residents.
- The Automobile Parking System Fund, which accounts for the City's metered on-street and parking lot activities.
- The Ice Arena Fund, which accounts for the operations of the City's ice arena.

The City's internal service fund is used to allocate machinery and equipment purchases and maintenance to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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 Pension System and Other Employee Benefits Trust Fund, which accounts for the accumulation of resources for pension benefit payments to substantially all City employees.
- The Agency Funds, which account for assets held by the City in a trustee capacity for other taxing authorities, members of the community, and other parties. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Interfund activity: During the course of operations, the 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 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.

Note I - Summary of Significant Accounting Policies (Continued)

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

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments, federal grant reimbursements, and certain miscellaneous receivables due from businesses and residents will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

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

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - 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 are stated at fair value.

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 \$4.1 million of the assets held by the pension plan at June 30, 2016 are not publicly traded and therefore do not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, fund managers, and other means. 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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

Restricted Assets - The outstanding bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as a restricted asset.

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., water supply and sewage disposal systems, 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 \$5,000 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 acquisition cost at the date of donation.

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

| Capital Asset Class | Lives (Years) |
|-------------------------------------|---------------|
| Roads, bridges, and sidewalks | 25-40 |
| Buildings and building improvements | 40-50 |
| Land improvements | 10-20 |
| Machinery and equipment | 5-15 |
| Plant facilities | 50-66 |
| Production facilities | 20-66 |
| Transmission facilities | 50 |
| Tunnels and retention basins | 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.

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and 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 City has two items that qualify for reporting in this category: the unamortized portion of the loss on a bond refunding, which is reported as a deferred outflow in the proprietary funds, and deferred outflows of resources related to pensions, which are created by differences between projected and actual investment earnings, differences between projected and actual plan experience, and changes in assumptions related to economic and demographic factors.

In addition to liabilities, the statement of net position and 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 one item that qualifies for reporting in this category. The deferred inflows of resources reported in the governmental funds balance sheet relate to revenue collected beyond the City's period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the City 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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the City 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 City'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.

Note I - Summary of Significant Accounting Policies (Continued)

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 City 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 Honorable Mayor and City Commission are the highest level of decision-making authority for the government that can, by adoption of a resolution, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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 Honorable Mayor and City Commission may assign fund balance. The Honorable Mayor and City Commission may also assign fund balance as they do 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 become a lien on July 1 of the following year. The taxes are due on February 28, after which point 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

The 2015 taxable valuation of the City totaled \$324.5 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 20.000 mills for operating purposes, 0.9137 mills for police and fire pension, 0.9137 mills for Dial-A-Ride services, and 0.3000 mills for sanitation services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$6.5 million for operating purposes, \$294,000 for police and fire pension, \$294,000 for Dial-A-Ride services, and \$105,000 for sanitation services. These amounts are recognized in the respective General Fund, special revenue, and enterprise fund financial statements as tax revenue.

Pension - The City offers a defined benefit pension plan to its employees. The City records a net pension asset for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For purposes 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.

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.

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 and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are 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 Funds, primarily) are used to liquidate the obligation.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds, except for the fringe benefit reimbursements which are budgeted as revenue. All annual appropriations lapse at fiscal year end.

Prior to the first regular City Commission meeting in April, the city manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to the third Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The city manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2001 is as follows:

| | | | |
|---------------------------------------|----|---------------|-------------------------|
| Shortfall at July 1, 2015 | | \$ | (799,235) |
| Current year permit revenue | | | 274,843 |
| Related expenses: | | | |
| Direct costs | \$ | 229,349 | |
| Estimated indirect costs | | <u>22,935</u> | <u>252,284</u> |
| Current year surplus | | | <u>22,559</u> |
| Cumulative shortfall at June 30, 2016 | | \$ | <u><u>(776,676)</u></u> |

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

| | <u>Final Budget</u> | <u>Actual</u> |
|----------------------|---------------------|---------------|
| General Fund: | | |
| City administrator | \$ 164,990 | \$ 171,809 |
| Telephone | 35,900 | 37,548 |
| Property tax refunds | 64,800 | 68,079 |
| Legal services | 139,500 | 163,625 |
| Planning services | 409,060 | 437,894 |
| Community promotions | 14,500 | 14,607 |
| Street lighting | 370,000 | 391,987 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

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 Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The City has a separate investment policy for its pension funds which follows the State Pension Act limits. At June 30, 2016, the City's deposits and investments are in accordance with statutory authority.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had \$7.68 million of bank deposits (certificates of deposit, checking, and savings accounts) 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 it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Pension and Other Employee Benefit Trust Funds - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's pension trust fund does not have a policy for custodial credit risk.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

| Investment Type | Fair Value of Pension Trust Funds | How Held |
|---|---|--------------|
| Common stock | \$ 9,845,600 | Counterparty |
| Closely held equities | 4,123,029 | Counterparty |
| Mutual funds | 27,774,570 | Counterparty |
| Corporate bonds | 4,986,580 | Counterparty |
| Corporate asset-backed securities | 1,292,026 | Counterparty |
| Corporate collateralized mortgage obligations | 2,852,253 | Counterparty |
| U.S. government collateralized mortgage obligations | 811,708 | Counterparty |
| U.S. government mortgage-backed securities | 3,035,628 | Counterparty |
| U.S. government treasuries, notes, and bonds | 2,518,894 | Counterparty |
| Private placement | 171,623 | Counterparty |
| Other municipal | 95,417 | Counterparty |
| Other U.S. government | 158,086 | Counterparty |
| Total investments | \$ 57,665,414 | |

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 does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

At year end, the City had the following investments:

| Investment | Fair Value of Pension Trust Funds | Weighted Average Maturity (Years) |
|---|---|--|
| Corporate asset-backed | \$ 1,292,026 | 5.84 |
| Corporate bonds | 4,986,580 | 9.10 |
| Corporate collateralized mortgage obligations | 2,852,253 | 29.05 |
| U.S. government collateralized mortgage obligations | 811,708 | 20.13 |
| U.S. government mortgage-backed | 3,035,628 | 31.01 |
| U.S. government treasuries, notes, and bonds | 2,518,894 | 17.97 |
| Other U.S. government | 158,087 | 25.14 |
| Private placement | 171,623 | 5.74 |
| Other municipal | 95,417 | 0.96 |
| Total | \$ 15,922,216 | |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment | S&P: AAA-A | S&P: BBB-B | Not Rated |
|---|--------------|--------------|--------------|
| Corporate asset-backed | \$ 885,495 | \$ - | \$ 406,531 |
| Corporate bonds | 1,460,370 | 3,526,210 | - |
| Corporate collateralized mortgage obligations | 1,696,554 | 376,680 | 778,819 |
| Private placement | - | 171,623 | - |
| U.S. government collateralized mortgage obligations | - | - | 811,708 |
| U.S. government mortgage-backed | - | - | 3,035,628 |
| U.S. government treasuries, notes, and bonds | - | - | 2,518,894 |
| Other U.S. government | - | - | 158,087 |
| Municipal | 95,417 | - | - |
| Total | \$ 4,137,836 | \$ 4,074,513 | \$ 7,709,667 |

Concentration of Credit Risk - The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits.

The City and the City's Pension Fund do not limit investments in any one issuer. At June 30, 2016, the City's Pension Fund maintained investments in Loomis Sayles Small Cap Value Fund totaling approximately 15.44 percent of the Pension Fund's total investments, Loomis Sayles Global Equity and Income Fund totaling approximately 11.29 percent of the Pension Fund's total investments, Loomis Sayles Capital Income Fund totaling approximately 13.10 percent of the Pension Fund's total investments, Oakmark Global Select Fund totaling approximately 7.80 percent of the Pension Fund's total investments, and Loomis Sayles Senior Loan Fund totaling approximately 7.07 percent of the Pension Fund's total investments.

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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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.

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) |
| Common stock | \$ 9,845,600 | \$ 9,845,600 | \$ - | \$ - |
| Closely held equities | 4,123,029 | - | - | 4,123,029 |
| Mutual funds | 27,774,570 | 27,774,570 | - | - |
| Corporate bonds | 4,986,579 | - | 4,986,579 | - |
| Corporate asset-backed securities | 1,292,026 | - | 1,292,026 | - |
| Corporate collateralized mortgage obligations | 2,852,253 | - | 2,852,253 | - |
| U.S. government collateralized mortgage obligations | 811,708 | - | 811,708 | - |
| U.S. government mortgage-backed securities | 3,035,628 | - | 3,035,628 | - |
| U.S. government treasuries, notes, and bonds | 2,518,894 | - | 2,518,894 | - |
| Private placement | 171,623 | - | 171,623 | - |
| Other municipal | 95,417 | - | 95,417 | - |
| Other U.S. government | 158,086 | - | 158,086 | - |
| Money market | 945,599 | - | 945,599 | - |
| Total investments by fair value level | <u>\$ 58,611,012</u> | <u>\$ 37,620,170</u> | <u>\$ 16,867,813</u> | <u>\$ 4,123,029</u> |

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

The fair value of certain assets 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

The fair value of other certain assets at June 30, 2016 was determined primarily based on Level 3 inputs. The City estimates the fair value of these investments with the assistance of investment custodians who use pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Note 4 - Capital Assets

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

| | Balance July 1, 2015 | Additions | Disposals/ Adjustments | Balance June 30, 2016 |
|---|-------------------------|--------------|---------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated - Land | \$ 2,791,978 | \$ - | \$ - | \$ 2,791,978 |
| Capital assets being depreciated: | | | | |
| Sidewalks and other intangible rights | 1,758,592 | - | - | 1,758,592 |
| Buildings and improvements | 6,815,113 | 18,335 | - | 6,833,448 |
| Machinery and equipment | 7,188,474 | 94,162 | (68,269) | 7,214,367 |
| Land improvements | 2,992,017 | - | - | 2,992,017 |
| Roads and bridges | 10,950,365 | - | - | 10,950,365 |
| Subtotal | 29,704,561 | 112,497 | (68,269) | 29,748,789 |
| Accumulated depreciation: | | | | |
| Sidewalks | 1,633,889 | 32,350 | - | 1,666,239 |
| Buildings and improvements | 2,942,711 | 106,992 | - | 3,049,703 |
| Machinery and equipment | 6,204,228 | 218,589 | (68,269) | 6,354,548 |
| Land improvements | 2,728,889 | 26,056 | - | 2,754,945 |
| Roads and bridges | 7,003,238 | 364,335 | - | 7,367,573 |
| Subtotal | 20,512,955 | 748,322 | (68,269) | 21,193,008 |
| Net capital assets being depreciated | 9,191,606 | (635,825) | - | 8,555,781 |
| Net capital assets | \$ 11,983,584 | \$ (635,825) | \$ - | \$ 11,347,759 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 4 - Capital Assets (Continued)

| Business-type Activities | Balance July 1, 2015 | Additions | Disposals/ Adjustments | Balance June 30, 2016 |
|--|-------------------------|-----------------------|---------------------------|--------------------------|
| Capital assets not being depreciated - | | | | |
| Land | \$ 3,637,078 | \$ - | \$ - | \$ 3,637,078 |
| Capital assets being depreciated: | | | | |
| Plant facilities | 25,120,754 | 139,580 | - | 25,260,334 |
| Production facilities | 20,423,517 | - | - | 20,423,517 |
| Transmission facilities | 10,852,034 | - | - | 10,852,034 |
| Tunnel and retention basins | 35,435,604 | - | - | 35,435,604 |
| Machinery and equipment | 11,482,183 | 111,352 | - | 11,593,535 |
| Land improvements | 1,547,654 | - | - | 1,547,654 |
| Subtotal | 104,861,746 | 250,932 | - | 105,112,678 |
| Accumulated depreciation: | | | | |
| Plant facilities | 15,241,767 | 589,464 | - | 15,831,231 |
| Production facilities | 10,324,682 | 403,445 | - | 10,728,127 |
| Transmission facilities | 4,403,618 | 217,041 | - | 4,620,659 |
| Tunnel and retention basins | 16,589,793 | 738,006 | - | 17,327,799 |
| Vehicles | 7,939,284 | 399,265 | - | 8,338,549 |
| Land improvements | 1,334,330 | 38,165 | - | 1,372,495 |
| Subtotal | 55,833,474 | 2,385,386 | - | 58,218,860 |
| Net capital assets being depreciated | 49,028,272 | (2,134,454) | - | 46,893,818 |
| Net capital assets | <u>\$ 52,665,350</u> | <u>\$ (2,134,454)</u> | <u>\$ -</u> | <u>\$ 50,530,896</u> |
| | | | | |
| Component Unit - Downtown Development Authority | Balance July 1, 2015 | Additions | Disposals/ Adjustments | Balance June 30, 2016 |
| Capital assets not being depreciated - | | | | |
| Land | \$ 151,892 | \$ - | \$ - | \$ 151,892 |

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

| | |
|-------------------------------|-------------------|
| Governmental activities: | |
| General government | \$ 126,514 |
| Public safety | 35,427 |
| Public works | 407,458 |
| Economic development | 29,009 |
| Recreation and culture | 149,914 |
| Total governmental activities | <u>\$ 748,322</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 4 - Capital Assets (Continued)

| | | |
|--------------------------------|--|---------------------|
| Business-type activities: | | |
| Sewage disposal | | \$ 1,380,574 |
| Water supply system | | 660,294 |
| Automobile parking system | | 185,697 |
| Ice Arena | | <u>158,821</u> |
| Total business-type activities | | <u>\$ 2,385,386</u> |

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|-------------------------------------|---------------------|---------------------|
| Advances from/to Other Funds | | |
| General Fund | Ice Arena | \$ 613,567 |
| Sewage Disposal System | Water Supply System | <u>708,549</u> |
| | Total | <u>\$ 1,322,116</u> |

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

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

| Fund Transferred From | Fund Transferred To | Amount |
|-----------------------|-----------------------------|-------------------|
| General Fund | Ice Arena | \$ 124,458 |
| | Nonmajor governmental funds | <u>50,000</u> |
| | Total General Fund | <u>\$ 174,458</u> |

The transfers from the General Fund to the Ice Arena and nonmajor governmental funds provided funding for operations.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

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. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|--------------|--------------|----------------|------------------------|
| Governmental Activities | | | | | |
| Installment purchase agreement - Vactor jet | \$ 143,031 | \$ - | \$ 45,361 | \$ 97,670 | \$ 47,717 |
| General obligation bonds - Series 2006 41B District Court Building (Note 14) | 1,938,000 | - | 1,938,000 | - | - |
| General obligation bonds - Series 2015 41B District Court Building Refunding Bonds (Note 14) | - | 1,945,990 | 63,580 | 1,882,410 | 77,010 |
| Total | 2,081,031 | 1,945,990 | 2,046,941 | 1,980,080 | 124,727 |
| Accrued sick and vacation liability | 727,198 | 150,566 | 304,270 | 573,494 | 300,000 |
| Total governmental activities | \$ 2,808,229 | \$ 2,096,556 | \$ 2,351,211 | \$ 2,553,574 | \$ 424,727 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Long-term Debt (Continued)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|---------------------|---------------------|----------------------|------------------------|
| Business-type Activities | | | | | |
| General obligation bonds: | | | | | |
| State Combined Sewer Overflow | | | | | |
| Revolving Fund Debt: | | | | | |
| 1998A Sewage Disposal System Bonds | \$ 1,560,000 | \$ - | \$ 300,000 | \$ 1,260,000 | \$ 305,000 |
| 1998A-2 Sewage Disposal System Bonds | 1,266,019 | - | 248,070 | 1,017,949 | 257,799 |
| 1999A Sewage Disposal System Bonds | 2,450,000 | - | 465,000 | 1,985,000 | 480,000 |
| 1998 B Sewage Disposal System Bonds | 475,000 | - | 150,000 | 325,000 | 150,000 |
| 1999 B Sewage Disposal System Bonds | 350,000 | - | 50,000 | 300,000 | 75,000 |
| 2010 Clean Water Program Proj. 5477-01 | 995,942 | - | 50,000 | 945,942 | 50,000 |
| 2001 Ice Arena Building Authority Refunding Bonds | 391,750 | - | 391,750 | - | - |
| 2003 Parking Improvement Bonds | 3,275,000 | - | 2,975,000 | 300,000 | 300,000 |
| 2016 Parking Improvement Refunding Bonds | - | 2,713,000 | - | 2,713,000 | 350,000 |
| 1998B Water Supply System Revenue Bonds | 300,000 | - | 75,000 | 225,000 | 75,000 |
| State Drinking Water Revolving Fund Debt: | | | | | |
| 1998A Water Supply System Revenue Bonds | 255,000 | - | 50,000 | 205,000 | 50,000 |
| 1998A-2 Water Supply System Revenue Bonds | 576,500 | - | 112,500 | 464,000 | 117,500 |
| 1999A Water Supply System Revenue Bonds | 1,445,000 | - | 275,000 | 1,170,000 | 280,000 |
| 2000A Water Supply System Revenue Bonds | 690,000 | - | 110,000 | 580,000 | 110,000 |
| 2000A-2 Water Supply System Revenue Bonds | 850,000 | - | 110,000 | 740,000 | 115,000 |
| 2007A Water Supply System Revenue Bonds | 2,464,911 | - | 185,000 | 2,279,911 | 185,000 |
| 2007B Water Supply System Revenue Bonds | 174,632 | - | 10,000 | 164,632 | 10,000 |
| Total bonds payable | 17,519,754 | 2,713,000 | 5,557,320 | 14,675,434 | 2,910,299 |
| Long-term portion of accrued sick and vacation liability | 119,509 | 16,685 | 50,000 | 86,194 | 61,751 |
| Total business-type activities | <u>\$ 17,639,263</u> | <u>\$ 2,729,685</u> | <u>\$ 5,607,320</u> | <u>\$ 14,761,628</u> | <u>\$ 2,932,320</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending June 30 | Governmental Activities | | | Business-type Activities | | |
|-------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2017 | \$ 124,727 | \$ 62,959 | \$ 187,686 | \$ 2,910,299 | \$ 360,804 | \$ 3,271,103 |
| 2018 | 143,505 | 57,895 | 201,400 | 2,708,663 | 277,491 | 2,986,154 |
| 2019 | 92,820 | 52,463 | 145,283 | 2,566,020 | 207,967 | 2,773,987 |
| 2020 | 109,140 | 49,282 | 158,422 | 2,497,160 | 144,566 | 2,641,726 |
| 2021 | 108,120 | 45,860 | 153,980 | 925,000 | 90,761 | 1,015,761 |
| 2022-2026 | 623,220 | 173,920 | 797,140 | 2,448,000 | 211,201 | 2,659,201 |
| 2027-2031 | 778,548 | 62,145 | 840,693 | 620,292 | 187,505 | 807,797 |
| Total | <u>\$ 1,980,080</u> | <u>\$ 504,524</u> | <u>\$ 2,484,604</u> | <u>\$ 14,675,434</u> | <u>\$ 1,480,295</u> | <u>\$ 16,155,729</u> |

Current Bond Refundings - During the year, the City issued \$2,713,000 in bonds with an average interest rate of 1.99 percent. The proceeds of these bonds were used to current refund \$2,675,000 of outstanding 2003 Parking Improvement Bonds with an average interest rate of 4.45 percent. The net proceeds of \$2,733,744 (after payment of \$38,000 in underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Automobile Parking System long-term debt. The current refunding reduced total debt service payments over the next eight years by \$236,316, which represents an economic gain of \$218,735.

Revenue Bond - The City has pledged substantially all revenue of the Water Supply System Fund, net of operating expenses, to repay the above water revenue bonds. Proceeds from the bonds provided financing for the repair of water infrastructure. The bonds are payable solely from the net revenue of the water system. The remaining principal and interest to be paid on the bonds total \$6,406,579. During the current year, net revenue of the system totaled \$1,459,159 compared to the annual debt requirements of \$1,094,584.

Restricted assets within the Water Supply System Fund totaled \$538,980. Assets are restricted in accordance with provisions of the fund's revenue obligation debt agreement.

Current year liabilities payable from restricted assets in the water supply system include \$419,375 of principal and \$36,105 of interest.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Environmental Remediation Liability

In a previous year, the City began remediation activities on a former municipal landfill, including the installation of an interception system and periodic monitoring of methane emissions. The current estimate of the ultimate liability, based on the probabilities of various cash flows, is \$870,000. A liability is included in the government-wide statements for the estimated probable cash flow related to the ongoing activities.

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 has purchased commercial insurance for health and general liability claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

Note 9 - Cost-sharing Defined Benefit Pension Plan

Plan Description - The Retirement System Board of Trustees manages and administers the City of Mount Clemens Employees' Retirement System (the "Plan") - a cost-sharing defined benefit pension plan that provides pensions for substantially all permanent full-time employees of the City, as well as for certain employees of the Mount Clemens Housing Commission (the "Housing Commission"). Benefit terms have been established by contractual agreements between the City and the Housing Commission and the various employee union representation; amendments are subject to the same process.

The Retirement System Board of Trustees consists of seven members nominated by the mayor and approved by the City Commission.

Plan Membership - At June 30, 2015, pension plan membership consisted of the following:

| | |
|---|------------|
| Inactive plan members or beneficiaries currently receiving benefits | 186 |
| Inactive plan members entitled to but not yet receiving benefits | 19 |
| Active plan members | 65 |
| Total | <u>270</u> |

Benefits Provided - The Employees' Retirement System provides retirement, disability, and death benefits.

Note 9 - Cost-sharing Defined Benefit Pension Plan (Continued)

Retirement benefits for general plan members age 50 with 25 or more years of service or age 55 with 10 or more years of service are calculated as 2.25 percent of the member's final average compensation times the member's years of service up to 25 years plus 1 percent of the member's final average compensation times the member's years of service in excess of 25 years (2 percent for individuals hired prior to July 1, 1998). Final average compensation is based on the highest consecutive three years of compensation out of the last 10 years worked. For union members hired after June 30, 1998 and nonunion members hired after June 30, 1987, only base wages are included in final average compensation.

Benefits for firefighter plan members age 50 with 10 or more years of service are calculated as 2.5 percent of the member's final average compensation times the member's years of service up to 25 years plus 1 percent of the member's final average compensation times the member's years of service in excess of 25 years. Final average compensation is based on the highest three years of compensation out of the last 10 years worked.

All retirement benefits are based on the benefit formula in effect at the time of the member's termination. Benefits are forfeited upon withdrawal of all or part of a member's accumulated contributions.

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Non-duty disability retirement benefits are determined in the same manner as retirement benefits, with a minimum benefit prior to voluntary retirement age of 15 percent of final average compensation for general members and 50 percent of final average compensation for firefighter members. Duty-related disability retirement benefits are determined in the same manner as retirement benefits; however, upon the earlier of the termination of the member's workers' compensation or age 60, additional service credit is granted for the period in which the member was in receipt of workers' compensation and the benefit is recomputed. The sum of the duty-related benefits and the workers' compensation benefit may not exceed 100 percent of a final average compensation for general members and 85 percent of final average compensation for firefighters.

All plan members are eligible for non-duty death benefits after 25 years of service or eligibility for regular retirement. All plan members are eligible for duty death benefits upon hire. Non-duty death benefits are determined in the same manner as retirement benefits; however, the benefits are actuarially reduced in accordance with a 100 percent joint and survivor election. Duty death benefits for general members equal benefits paid under workers' compensation and are paid to the member's widower, unmarried children under the age of 18, and/or dependent parents. Duty death benefits for firefighters are determined in the same manner as disability benefits.

Note 9 - Cost-sharing Defined Benefit Pension Plan (Continued)

Members who have 10 or more years of service and are not eligible for duty or non-duty death benefits are eligible for a survivor retirement allowance. Under this provision, 75 percent of the regular member's retirement allowance will be paid to a member's surviving spouse, with additional service credit granted for the period between the member's date of death and the date that the member would have attained the age of 60. The benefit terminates upon death. The member's unmarried children under the age of 18 will be paid 15 percent of the member's regular retirement allowance computed in the same manner as for a surviving spouse. If a surviving spousal benefit is not being paid, the percentage of the regular retirement allowance paid will increase to 60. The benefit terminates upon marriage, death, or attainment of age 18.

Firefighter members retiring on or after February 13, 2003 with 15 or more years of service and firefighter members receiving death or disability benefits will receive an annual cost-of-living adjustment of 2 percent (non-compounding) per year for 10 years, calculated based on the initial annual pension benefit amount.

General members are not eligible for 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 City 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 Retirement System Board of Trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2016, the active general member contribution rate was 5.30 percent of annual compensation and the active firefighter member contribution rate was 6.55 percent of annual compensation. The City's average contribution rate was 18.22 percent of annual covered payroll.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - 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 Retirement System Board of Trustees by a majority vote of its members. It is the policy of the Retirement System Board of Trustees 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 board's adopted asset allocation policy as of June 30, 2016:

| <u>Asset Class</u> | <u>Target Allocation Percentage</u> |
|--------------------------|---|
| Large cap value equity | 15.0 |
| Large cap growth equity | 15.0 |
| Small cap equity | 8.0 |
| International stocks | 10.0 |
| Dividend strategy equity | 7.0 |
| U.S. core fixed income | 40.0 |
| Global fixed income | 2.5 |
| High yield fixed income | 2.5 |

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 2.16 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 11 - Pension Plan Reserves

In accordance with the City's Code of Ordinances, 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 plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 3.0 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Pension Plan Reserves (Continued)

The balances of the reserve accounts at June 30, 2016 are as follows:

| | <u>Required Reserve</u> | <u>Amount Funded</u> |
|------------------|-------------------------|----------------------|
| Retiree reserve | \$ 42,657,237 | \$ 42,657,237 |
| Employee reserve | 6,143,615 | 6,143,615 |
| Employer reserve | N/A | 10,060,092 |

Note 12 - Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The components of the net pension liability of the City at June 30, 2016 were as follows:

| | |
|---|-------------------|
| City's share of the net pension liability | \$ 58,054,510 |
| City's share of the plan fiduciary net position | <u>57,166,926</u> |
| City's net pension liability | <u>\$ 887,584</u> |

| | |
|--|--------|
| City's share of the plan fiduciary net position as a percentage of the total pension liability | 98.5 % |
|--|--------|

The City's proportionate share of the net pension liability was based on the City's actuarially required contribution for the year ended June 30, 2016, relative to total contributions. At June 30, 2016, the City's proportion was 97.122 percent, which was consistent with its proportion measured as of June 30, 2016. The City has chosen to use June 30, 2016 as its measurement date for the net pension liability. The June 30, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Net Pension Liability, Deferrals, and Pension Expense (Continued)

Changes in the City's proportionate share of the net pension liability during the measurement year were as follows:

| Changes in Net Pension (Asset) Liability | Increase (Decrease) | | |
|---|---|---|---|
| | City's Share of the Total Pension (Asset) Liability | City's Share of the Plan Net Position | City's Share of the Net Pension (Asset) Liability |
| Balance at June 30, 2015 | \$ 57,028,720 | \$ 58,583,374 | \$ (1,554,654) |
| Service cost | 604,706 | - | 604,706 |
| Interest | 4,205,445 | - | 4,205,445 |
| Differences between expected and actual experience | (283,010) | - | (283,010) |
| Contributions - Employer | - | 680,176 | (680,176) |
| Contributions - Employee | - | 215,619 | (215,619) |
| Net investment income | - | 1,173,770 | (1,173,770) |
| Benefit payments, including refunds | (4,485,738) | (4,485,738) | - |
| Administrative expenses | - | (11,634) | 11,634 |
| Change in proportion and miscellaneous other revenue | 984,387 | 1,011,359 | (26,972) |
| Net changes | 1,025,790 | (1,416,448) | 2,442,238 |
| Balance at June 30, 2016 | \$ 58,054,510 | \$ 57,166,926 | \$ 887,584 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Net Pension Liability, Deferrals, and Pension Expense (Continued)

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

| Changes in Net Pension (Asset) Liability | Increase (Decrease) | | |
|---|---------------------------------------|----------------------|-------------------------------------|
| | Total Pension (Asset) Liability | Plan Net Position | Net Pension (Asset) Liability |
| Balance at June 30, 2015 | \$ 59,732,200 | \$ 61,360,553 | \$ (1,628,353) |
| Service cost | 622,625 | - | 622,625 |
| Interest | 4,330,064 | - | 4,330,064 |
| Differences between expected and actual experience | (291,396) | - | (291,396) |
| Contributions - Employer | - | 700,332 | (700,332) |
| Contributions - Employee | - | 222,008 | (222,008) |
| Net investment income | - | 1,208,552 | (1,208,552) |
| Benefit payments, including refunds | (4,618,663) | (4,618,663) | - |
| Administrative expenses | - | (11,979) | 11,979 |
| Miscellaneous other revenue | - | 141 | (141) |
| Net changes | 42,630 | (2,499,609) | 2,542,239 |
| Balance at June 30, 2016 | \$ 59,774,830 | \$ 58,860,944 | \$ 913,886 |

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 \$480,757. 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 | \$ - | \$ 276,628 |
| Change in proportion and differences between employer contributions and share of contributions | - | 34,308 |
| Net difference between projected and actual earnings on pension plan investments | 4,078,040 | - |
| Total | \$ 4,078,040 | \$ 310,936 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Net Pension Liability, Deferrals, and Pension Expense (Continued)

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

| Years Ending June 30 | Amount |
|-------------------------|------------|
| 2017 | \$ 907,516 |
| 2018 | 1,078,804 |
| 2019 | 1,148,630 |
| 2020 | 632,154 |

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 | 2.8 % |
| Salary increases | 16.1 % Average, including inflation |
| Investment rate of return | 7.5 % Net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 male (unadjusted) and female (unadjusted) Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Net Pension Liability, Deferrals, and Pension Expense (Continued)

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 | Target Allocation | Long-term Expected Real Rate of Return |
|--------------------------|-------------------|--|
| Large Cap Value Equity | 15.0 % | 7.5 % |
| Large Cap Growth Equity | 15.0 | 7.5 |
| Small Cap Equity | 8.0 | 7.9 |
| International Stocks | 10.0 | 7.5 |
| Dividend Strategy Equity | 7.0 | 7.9 |
| U.S. Core Fixed Income | 40.0 | 5.1 |
| Global Fixed Income | 2.5 | 5.8 |
| High Yield Fixed Income | 2.5 | 5.1 |

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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|-----------------------|------------------------------------|-----------------------|
| Net pension liability (asset) of the City | \$ 6,760,478 | \$ 887,584 | \$ (4,133,454) |

Note 12 - Net Pension Liability, Deferrals, and Pension Expense (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows 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 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 13 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts.

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

Funding Policy - The collective bargaining agreements do not require 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. For the fiscal year ended June 30, 2016, the City made payments for postemployment health benefit premiums of approximately \$1,713,000.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 13 - Other 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, 2015. 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 30 years. This valuation's computed contribution and actual funding are summarized as follows:

| | |
|---|---------------------|
| Annual required contribution (recommended) | \$ 3,027,115 |
| Interest on the prior year's net OPEB obligation | 288,148 |
| Less adjustment to the annual required contribution | <u>(251,110)</u> |
| Annual OPEB cost | 3,064,153 |
| Amounts contributed: | |
| Payments of current premiums, including implicit rate subsidy | (1,959,760) |
| Advance funding | <u>-</u> |
| Increase in net OPEB obligation | 1,104,393 |
| OPEB obligation - Beginning of year | <u>6,779,963</u> |
| OPEB obligation - End of year | <u>\$ 7,884,356</u> |

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

| Fiscal Year Ended | Annual OPEB Costs | Employer Contributions | Net OPEB Obligation |
|-------------------|----------------------|---------------------------|------------------------|
| | | Percentage Contributed | |
| 6/30/16 | \$ 3,064,153 | 56.6 % | \$ 7,884,356 |
| 6/30/15 | 3,638,784 | 58.4 | 6,779,963 |
| 6/30/14 | 3,485,117 | 64.0 | 5,335,267 |

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 |
|--------------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/15 | \$ - | \$ 52,986,424 | \$ 52,986,424 | - | \$ 3,686,311 | 1,437.4 |
| 6/30/13 | - | 63,821,293 | 63,821,293 | - | 3,793,429 | 1,682.4 |
| 6/30/11 | - | 55,563,689 | 55,563,689 | - | 4,086,498 | 1,359.7 |

Note 13 - Other 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, presented as required supplemental information following the notes to financial statements, presents multi-year 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, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.25 percent investment rate of return (net of administrative expenses), 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, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.25 percent after nine years. Both rates included a 4.25 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015 was 26 years.

Note 14 - Joint Ventures

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Park, Grosse Pointe Farms, Grosse Pointe, Grosse Pointe Woods, and Harper Woods, the Village of Grosse Pointe Shores, and the Township of Clinton. During the prior year, the City declined to renew its participation in the refuse contract but will still maintain a membership interest in the Authority until the City's interest in the Authority is fully refunded to the City.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 14 - Joint Ventures (Continued)

The City's interest in the net position of the Authority totaled \$30,706 at June 30, 2016 and is reported as part of the governmental activities in the statement of net position. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

The City is also a member of the 41B District Court Common Fund (the "Court"), a joint venture that provides judiciary services to the City of Mount Clemens, Michigan and the Charter Townships of Clinton and Harrison. The City Commission appoints one member to the Court's management council, which has the responsibility of reviewing financial matters of the Court, including annual budget requests. The expenses of the Court are divided among three communities in proportion to the volume of cases attributable to each community. Fines and fees collected from within the communities are distributable to the communities net of their allocation of the Court's expenditures. The City has also recorded its interest in the capital assets, the related bonded debt obligations, and the net position of the Court in the governmental activities statements in the amount of \$236,197, based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 15 - Change in Accounting

During the year, the City adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques.

Note 16 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the City's OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2016

Note 16 - Upcoming Accounting Pronouncements (Continued)

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

City of Mount Clemens, Michigan

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

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|-----------------|----------------|--------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 6,496,280 | \$ 6,457,890 | \$ 6,414,868 | \$ (43,022) |
| Licenses and permits | 329,250 | 317,200 | 309,327 | (7,873) |
| Federal grants | - | 22,614 | 22,614 | - |
| State-shared revenue and grants | 1,836,000 | 1,877,300 | 1,954,799 | 77,499 |
| Charges for services: | | | | |
| Charges, services, and fees | 390,400 | 380,750 | 379,319 | (1,431) |
| Charges for services rendered | 230,000 | 230,000 | 230,000 | - |
| Charges for services and sales | 328,700 | 372,200 | 384,062 | 11,862 |
| Fines and forfeitures: | | | | |
| Parking fines and fees | - | (800) | (39,378) | (38,578) |
| Use and admission fees | 50,000 | 22,400 | 44,740 | 22,340 |
| Investment income | 5,000 | 3,000 | 5,861 | 2,861 |
| Other revenue - Other miscellaneous income | 390,700 | 289,550 | 256,656 | (32,894) |
| Total revenue | 10,056,330 | 9,972,104 | 9,962,868 | (9,236) |
| Expenditures - Current | | | | |
| General government: | | | | |
| City Commission | 6,900 | 7,090 | 7,090 | - |
| City administrator | 166,422 | 164,990 | 171,809 | (6,819) |
| Accounting | 85,730 | 101,750 | 94,488 | 7,262 |
| Purchasing | 144,941 | 163,539 | 131,068 | 32,471 |
| Telephone | 31,500 | 35,900 | 37,548 | (1,648) |
| Data processing | 183,500 | 182,000 | 177,939 | 4,061 |
| Treasurer | 129,160 | 128,800 | 123,834 | 4,966 |
| Assessing | 110,975 | 113,900 | 113,552 | 348 |
| Property tax refunds | 5,000 | 64,800 | 68,079 | (3,279) |
| City clerk | 125,125 | 114,300 | 113,564 | 736 |
| Elections | 30,700 | 22,750 | 22,044 | 706 |
| Maintenance of municipal buildings | 136,808 | 122,100 | 111,818 | 10,282 |
| Legal services | 135,000 | 139,500 | 163,625 | (24,125) |
| Personnel | 126,727 | 109,250 | 103,116 | 6,134 |
| Controller | 80,114 | 83,040 | 82,724 | 316 |
| Planning services | 366,882 | 409,060 | 437,894 | (28,834) |
| Auditing services | 45,500 | 40,000 | 39,500 | 500 |
| Cable television | 75,000 | 75,000 | 75,000 | - |
| Community promotions | 20,200 | 14,500 | 14,607 | (107) |
| Total general government | 2,006,184 | 2,092,269 | 2,089,299 | 2,970 |
| Public safety: | | | | |
| Police | 2,474,558 | 2,465,500 | 2,465,334 | 166 |
| Dispatch center | 429,698 | 433,300 | 433,287 | 13 |
| Fire | 1,396,935 | 1,480,290 | 1,336,450 | 143,840 |
| Volunteer firemen | 52,100 | 48,700 | 36,648 | 12,052 |
| Inspection | 170,000 | 170,000 | 170,000 | - |
| Dog warden | 33,850 | 32,900 | 27,741 | 5,159 |
| Total public safety | 4,557,141 | 4,630,690 | 4,469,460 | 161,230 |

City of Mount Clemens, Michigan

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

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget</u> |
|--|------------------------|-----------------------|---------------------|---|
| Expenditures - Current (Continued) | | | | |
| Public works: | | | | |
| Supervision and overhead | \$ - | \$ 1,180 | \$ 590 | \$ 590 |
| Street lighting | 400,000 | 370,000 | 391,987 | (21,987) |
| Sewage services | 2,000 | 3,500 | 2,550 | 950 |
| Total public works | 402,000 | 374,680 | 395,127 | (20,447) |
| Recreation and culture: | | | | |
| Parks and stadium | 170,600 | 197,377 | 186,662 | 10,715 |
| Programs | 51,000 | 45,400 | 27,266 | 18,134 |
| Art center | 5,000 | 4,509 | 3,610 | 899 |
| Total recreation and culture | 226,600 | 247,286 | 217,538 | 29,748 |
| Other functions | 2,311,094 | 2,127,900 | 1,844,582 | 283,318 |
| Total expenditures | 9,503,019 | 9,472,825 | 9,016,006 | 456,819 |
| Excess of Revenue Over Expenditures | 553,311 | 499,279 | 946,862 | 447,583 |
| Transfers Out | (140,000) | (50,000) | (174,458) | (124,458) |
| Net Change in Fund Balance | 413,311 | 449,279 | 772,404 | 323,125 |
| Fund Balance - Beginning of year | 2,359,523 | 2,359,523 | 2,359,523 | - |
| Fund Balance - End of year | <u>\$ 2,772,834</u> | <u>\$ 2,808,802</u> | <u>\$ 3,131,927</u> | <u>\$ 323,125</u> |

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets and Trunklines Year Ended June 30, 2016

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|-------------------|-------------------|------------------------------------|
| Revenue | | | | |
| State-shared revenue and grants | \$ 735,000 | \$ 743,000 | \$ 804,675 | \$ 61,675 |
| Charges for services | 15,000 | 15,000 | 11,880 | (3,120) |
| Investment income | 1,500 | 1,200 | 2,637 | 1,437 |
| Other revenue - Other miscellaneous income | 1,000 | 1,400 | 2,063 | 663 |
| Total revenue | 752,500 | 760,600 | 821,255 | 60,655 |
| Expenditures - Current - | | | | |
| Public works - Street construction | 1,958,115 | 1,358,001 | 881,919 | 476,082 |
| Transfers Out | (70,000) | (30,000) | - | 30,000 |
| Net Change in Fund Balance | (1,275,615) | (627,401) | (60,664) | 566,737 |
| Fund Balance - Beginning of year | 844,570 | 844,570 | 844,570 | - |
| Fund Balance - End of year | <u>\$ (431,045)</u> | <u>\$ 217,169</u> | <u>\$ 783,906</u> | <u>\$ 566,737</u> |

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Year Ended June 30

| | 2016 | 2015 | 2014 |
|---|----------------------|-----------------------|-----------------------|
| Total Pension Liability | | | |
| Service cost | \$ 622,625 | \$ 619,923 | \$ 656,926 |
| Interest | 4,330,064 | 4,342,947 | 4,309,835 |
| Changes in benefit terms | - | - | 27,047 |
| Differences between expected and actual experience | (291,396) | (493,504) | - |
| Changes in assumptions | - | - | - |
| Benefit payments, including refunds | (4,618,663) | (4,666,338) | (4,401,292) |
| Net Change in Total Pension Liability | 42,630 | (196,972) | 592,516 |
| Total Pension Liability - Beginning of year | 59,732,200 | 59,929,172 | 59,336,656 |
| Total Pension Liability - End of year | \$ 59,774,830 | \$ 59,732,200 | \$ 59,929,172 |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 700,332 | \$ 761,168 | \$ 505,402 |
| Contributions - Member | 222,008 | 218,247 | 268,110 |
| Net investment income | 1,208,552 | 1,936,719 | 9,217,006 |
| Administrative expenses | (11,979) | (14,906) | (12,919) |
| Benefit payments, including refunds | (4,618,663) | (4,666,338) | (4,401,292) |
| Other | 141 | - | 150 |
| Net Change in Plan Fiduciary Net Position | (2,499,609) | (1,765,110) | 5,576,457 |
| Plan Fiduciary Net Position - Beginning of year | 61,360,553 | 63,125,663 | 57,549,206 |
| Plan Fiduciary Net Position - End of year | \$ 58,860,944 | \$ 61,360,553 | \$ 63,125,663 |
| City's Net Pension Liability (Asset) - Ending | \$ 913,886 | \$ (1,628,353) | \$ (3,196,491) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 98.47 % | 102.73 % | 105.33 % |
| Covered Employee Payroll | \$ 3,842,979 | \$ 3,795,991 | \$ 3,977,668 |
| City's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll | 23.8 % | (42.9)% | (80.4)% |

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|------------------|--------------------|--------------|--------------|
| Actuarially determined contribution | \$ 443,782 | \$ 582,932 | \$ 720,624 | \$ 734,519 | \$ 770,584 | \$ 940,264 | \$ 704,000 | \$ 522,454 | \$ 529,250 | \$ 834,776 |
| Contributions in relation to the actuarially determined contribution | 700,332 | 761,169 | 505,402 | 520,114 | 558,412 | 566,821 | 678,251 | 620,431 | 529,250 | 834,776 |
| Contribution (excess) deficiency | <u>\$ (256,550)</u> | <u>\$ (178,237)</u> | <u>\$ 215,222</u> | <u>\$ 214,405</u> | <u>\$ 212,172</u> | <u>\$ 373,443</u> | <u>\$ 25,749</u> | <u>\$ (97,977)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll | \$ 3,842,979 | \$ 3,795,991 | \$ 3,977,668 | \$ 3,815,508 | \$ 3,822,187 | \$ 4,086,498 | \$ 4,593,744 | \$ 4,644,573 | \$ 4,646,808 | \$ 4,455,135 |
| Contributions as a percentage of covered employee payroll | 18.2 % | 20.1 % | 12.7 % | 13.6 % | 14.6 % | 13.9 % | 14.8 % | 13.4 % | 11.4 % | 18.7 % |

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry-age normal

Amortization method Level percent of payroll, closed

Remaining amortization period 25 years

Asset valuation method 5-year smoothed market

Inflation 2.75 percent; no explicit price inflation assumption is used in the valuation

Salary increases 4.25 percent to 27.90 percent

Investment rate of return 7.50 percent (net of expenses)

Retirement age Experience-based table of rates that are specific to the type of eligibility condition; last updated for the 2011 valuation

Mortality RP-200 male (unadjusted) and female (unadjusted) Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|-------|-------|--------|--------|-------|--------|--------|---------|--------|--------|
| Annual money-weighted rate of return, net of investment expense | 2.2 % | 3.5 % | 16.6 % | 13.6 % | 3.5 % | 20.6 % | 14.2 % | (13.4)% | (3.8)% | 15.6 % |

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of City Contributions City of Mount Clemens Employees' Retirement System

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| Actuarially determined contribution | \$ 431,010 | \$ 568,096 |
| Contributions in relation to the actuarially determined contribution | <u>680,176</u> | <u>726,721</u> |
| Contribution deficiency (excess) | <u>\$ (249,166)</u> | <u>\$ (158,625)</u> |
| City's covered employee payroll | \$ 3,732,378 | \$ 3,624,184 |
| Contributions as a percentage of covered employee payroll | 18.2 % | 20.1 % |

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of the City's Proportionate Share of the Net Pension Liability City of Mount Clemens Employees' Retirement System

| | <u>2016</u> | <u>2015</u> |
|---|--------------|----------------|
| City's proportion of the net pension liability (asset) | 97.1 % | 95.5 % |
| City's proportionate share of the net pension liability (asset) | \$ 887,584 | \$ (1,554,654) |
| City's covered employee payroll | \$ 3,732,378 | \$ 3,624,184 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 23.8 % | 42.9 % |
| Plan fiduciary net position as a percentage of total pension liability | 98.5 % | 102.7 % |

City of Mount Clemens, 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 |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 6/30/11 | \$ - | \$ 55,563,689 | \$ 55,563,689 | - | \$ 4,086,498 | 1,359.7 |
| 6/30/13 | - | 63,821,293 | 63,821,293 | - | 3,793,429 | 1,682.4 |
| 6/30/15 | - | 52,986,424 | 52,986,424 | - | 3,686,311 | 1,437.4 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Percentage Contributed |
|-------------------|--------------------------|--------------------------------|------------------------|
| 6/30/14 | 6/30/13 | \$ 3,442,918 | 64.0 |
| 6/30/15 | 6/30/13 | 3,589,242 | 59.2 |
| 6/30/16 | 6/30/15 | 3,027,115 | 56.6 |

* 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, 2015, the latest actuarial valuation, is as follows:

| | |
|-----------------------------|----------------------------------|
| Amortization method | Level percent of payroll, closed |
| Amortization period | 26 years |
| Asset valuation method | N/A |
| Actuarial assumptions: | |
| Investment rate of return * | 4.25% |
| Projected salary increases | 4.25% |
| *Includes inflation at | 4.25% |
| Cost of living adjustments | None |

Other Supplemental Information

City of Mount Clemens, Michigan

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

| | Special Revenue Funds | | | | Total Nonmajor Governmental Funds |
|--------------------------------------|--------------------------|--------------------------|-------------------------|-------------------------|--|
| | Local Streets | Dial-A-Ride | Public Improvement | Sidewalk Safety Fund | |
| Assets | | | | | |
| Cash and cash equivalents | \$ 750,827 | \$ 291,981 | \$ 27,254 | \$ 35,413 | \$ 1,105,475 |
| Receivables: | | | | | |
| Other receivables | - | 20,701 | 13,153 | 12,760 | 46,614 |
| Due from other governmental units | 83,742 | - | - | - | 83,742 |
| Prepaid expenses | - | 4,258 | - | - | 4,258 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 834,569</u> | <u>\$ 316,940</u> | <u>\$ 40,407</u> | <u>\$ 48,173</u> | <u>\$ 1,240,089</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 63,628 | \$ 1,063 | \$ 4,717 | \$ - | \$ 69,408 |
| Due to other governmental units | - | 3,210 | - | - | 3,210 |
| Accrued and other liabilities | 3,516 | 13,373 | 1,148 | - | 18,037 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 67,144 | 17,646 | 5,865 | - | 90,655 |
| Fund Balances | | | | | |
| Nonspendable - Prepays | - | 4,258 | - | - | 4,258 |
| Restricted: | | | | | |
| Right-of-way maintenance | 225,054 | - | - | - | 225,054 |
| Street construction | 442,371 | - | - | - | 442,371 |
| Transportation | - | 205,036 | - | - | 205,036 |
| Public improvement | - | - | 34,542 | - | 34,542 |
| Assigned: | | | | | |
| Local street construction | 100,000 | - | - | - | 100,000 |
| Sidewalks | - | - | - | 48,173 | 48,173 |
| Transportation | - | 90,000 | - | - | 90,000 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | 767,425 | 299,294 | 34,542 | 48,173 | 1,149,434 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 834,569</u> | <u>\$ 316,940</u> | <u>\$ 40,407</u> | <u>\$ 48,173</u> | <u>\$ 1,240,089</u> |

City of Mount Clemens, Michigan

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 |
|--|-----------------------|-------------------|-----------------------|-------------------------|--|
| | Local Streets | Dial-A-Ride | Public Improvement | Sidewalk Safety Fund | |
| Revenue | | | | | |
| Property taxes | \$ - | \$ 294,100 | \$ 350 | \$ - | \$ 294,450 |
| State-shared revenue and grants | 274,853 | 65,237 | - | - | 340,090 |
| Charges for services | 21,000 | 69,789 | - | - | 90,789 |
| Investment income | 484 | 727 | - | - | 1,211 |
| Other revenue: | | | | | |
| Special assessments | - | - | 55,473 | - | 55,473 |
| Other miscellaneous income | 152,759 | 3,291 | - | 20,900 | 176,950 |
| Total revenue | 449,096 | 433,144 | 55,823 | 20,900 | 958,963 |
| Expenditures - Current - Public works | 316,439 | 409,596 | 59,291 | 22,727 | 808,053 |
| Excess of Revenue Over (Under) Expenditures | 132,657 | 23,548 | (3,468) | (1,827) | 150,910 |
| Other Financing Sources - Transfers in | - | - | - | 50,000 | 50,000 |
| Net Change in Fund Balances | 132,657 | 23,548 | (3,468) | 48,173 | 200,910 |
| Fund Balances - Beginning of year | 634,768 | 275,746 | 38,010 | - | 948,524 |
| Fund Balances - End of year | <u>\$ 767,425</u> | <u>\$ 299,294</u> | <u>\$ 34,542</u> | <u>\$ 48,173</u> | <u>\$ 1,149,434</u> |

City of Mount Clemens, Michigan

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2016

| | Agency Funds | | Total Agency Funds |
|--|------------------|-------------------|-----------------------|
| | Tax Collections | Agency Fund | |
| Assets | | | |
| Cash and cash equivalents | \$ 7,521 | \$ 288,501 | \$ 296,022 |
| Receivables from sales to customers on account | 2,484 | - | 2,484 |
| Total assets | \$ 10,005 | \$ 288,501 | \$ 298,506 |
| Liabilities | | | |
| Accounts payable | \$ 577 | \$ - | \$ 577 |
| Due to other governmental units | 9,428 | - | 9,428 |
| Cash, bonds, and deposits | - | 288,501 | 288,501 |
| Total liabilities | \$ 10,005 | \$ 288,501 | \$ 298,506 |