

City of Mount Clemens, Michigan

**Financial Report
with Supplemental Information
June 30, 2014**

City of Mount Clemens, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13-14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of the Balance Sheet to the Statement of Net Position	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Position	19-20
Statement of Revenue, Expenses, and Changes in Net Position	21-22
Statement of Cash Flows	23-24
Fiduciary Funds:	
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefits Trust Fund	26
Component Units:	
Statement of Net Position	27
Statement of Activities	28
Notes to Financial Statements	29-59
Required Supplemental Information	60
Budgetary Comparison Schedule - General Fund	61-62
Retirement System Schedules of Funding Progress and Employer Contributions	63
Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions	64
Schedule of Changes in the City Net Pension Liability and Related Ratios	65
Schedule of City Contributions	66
Schedule of Investment Returns	67

City of Mount Clemens, Michigan

Contents (Continued)

Other Supplemental Information	68
Nonmajor Governmental Funds:	
Combining Balance Sheet	69
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	70
Fiduciary Funds - Statement of Assets and Liabilities	71

Independent Auditor's Report

To the Board of Directors
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, 2014 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 opinion.

Opinion

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, 2014 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 Board of Directors
City of Mount Clemens, Michigan

Emphasis of Matter

As discussed in Note 16 to the basic financial statements, during the year ended June 30, 2014, the City adopted new accounting guidance under the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of implementing this new guidance, the City now reports deferred inflows for governmental fund revenue that is not available and deferred outflows for the bond refunding loss being amortized. The city also adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. Adoption of this statement resulted in significant changes to the defined benefit-related note disclosures as well as the required supplemental Information schedules. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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

November 4, 2014

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, 2014. Please read it in conjunction with the financial statements.

Overview of this Annual Report

The basic financial statements section of this report consist 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. 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
	2013	2014	Change	
Assets				
Other assets	\$ 6,400,789	\$ 6,154,056	\$ (246,733)	-4%
Capital assets	<u>11,920,051</u>	<u>11,450,707</u>	<u>(469,344)</u>	-4%
Total assets	18,320,840	17,604,763	(716,077)	-4%
Liabilities				
Current liabilities	205,719	294,957	89,238	43%
Long-term liabilities	<u>6,835,654</u>	<u>8,508,401</u>	<u>1,672,747</u>	24%
Total liabilities	<u>7,041,373</u>	<u>8,803,358</u>	<u>1,761,985</u>	25%
Net Position				
Invested in capital assets	9,564,702	9,230,514	(334,188)	-3%
Restricted	1,935,080	1,977,708	42,628	2%
Unrestricted	<u>(220,315)</u>	<u>(2,406,817)</u>	<u>(2,186,502)</u>	992%
Total net position	<u>\$ 11,279,467</u>	<u>\$ 8,801,405</u>	<u>\$ (2,478,062)</u>	-22%

Total net position related to the City's governmental activities decreased by approximately \$2.5 million, which is a 22 percent decrease. This decrease is due to a reduction in capital assets, an increase in accrued settlement, and an increase in postemployment benefits other than pension liability. The City continues to record its liability/asset 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 \$3.8 million.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent Change
	2013	2014	Change	
Revenue				
Program revenue:				
Charges for services	\$ 1,086,822	\$ 1,145,382	\$ 58,560	5%
Operating grants	1,253,750	1,357,054	103,304	8%
General revenue:				
Property taxes	4,957,073	4,877,327	(79,746)	-2%
State-shared revenue	1,666,010	1,725,269	59,259	4%
Investment earnings	9,568	10,657	1,089	11%
Other revenue	733,573	914,556	180,983	25%
Total revenue	9,706,796	10,030,245	323,449	3%
Program Expenses				
General government	4,081,958	4,637,294	555,336	14%
Public safety	5,313,004	5,145,845	(167,159)	-3%
Public works	2,378,056	2,273,718	(104,338)	-4%
Recreation and cultural	364,646	361,450	(3,196)	-1%
Total expenses	12,137,664	12,418,307	280,643	2%
Transfers	-	(90,000.00)	(90,000.00)	-100%
Change in Net Position	\$ (2,430,868)	\$ (2,478,062)	\$ (47,194)	2%

The City's four largest revenue items are property taxes at 48.6 percent of total revenue, state-shared revenue at 17.2 percent, operating grants at 13.5 percent, and charges for services at 11.4 percent.

Property taxes, the largest source of general government revenue, experienced a decrease of approximately 2 percent due to a decrease in taxable property values. Also, this year the City experienced a loss of approximately \$61,000 due to refunds of prior year tax revenues resulting from Michigan Tax Tribunal appeals. This was the fourth year the City experienced a decrease in property values. With the recession, the City began projecting the loss of property value in the fiscal year 2010 budget. Overall, the City has lost over 29 percent of its property tax value and cumulative revenue of \$1.4 million.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

State-shared revenue, the City's second largest source of general government revenue, showed an approximate \$59,000 increase from the previous year, but still continues at the reduced levels of recent years. The amount received from the State of Michigan as of June 30, 2014 was \$1.725 million, or 33 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 63 of 2011 introduced the Economic Vitality Incentive Program (EVIP). An eligible city, village, or township will receive an amount for each of the three categories for which they fulfill the specific requirements. The three categories are accountability and transparency, consolidation of services, and employee compensation. The City's compliance with all three categories of the EVIP resulted in the City receiving the maximum amount available of \$538,452 of statutory revenue-sharing dollars.

In response to the declining revenue, the City reduced the full-time staff. Since 1999, the City has reduced staff from 159 to 67. To accomplish the reduction of the City employees, 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, 46 percent of expenses are outsourced. Current outsourcing includes the assessor, 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, Mount Clemens' residents receive quality services while saving money and the City eliminates the legacy costs associated with these positions.

Other items affecting the General Fund were the City's involvement in Medicare Part D. To date, the City has secured \$453,719 in reimbursements related to this program.

Another item is the contribution by all employees toward their health insurance premiums, including the retirees who offered to change their plans. These contributions totaled approximately \$127,000 during 2013-2014.

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

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Under governmental activities program expenses, public safety accounted for 40 percent of expenditures. General government expenditures are next most significant, accounting for 37 percent of total expenditures. Finally, public works makes up 20 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. The contract with the Macomb County Sheriff's Department was renewed for an additional three years on January 1, 2012.

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			Percent Change
	2013	2014	Change	
Assets				
Other assets	\$ 2,885,663	\$ 3,335,524	\$ 449,861	16%
Capital assets	56,561,387	54,574,037	(1,987,350)	-4%
Total assets	59,447,050	57,909,561	(1,537,489)	-3%
Deferred Outflows	-	23,921	23,921	100%
Liabilities				
Current liabilities	1,357,764	1,662,285	304,521	22%
Long-term liabilities	24,131,980	21,624,906	(2,507,074)	-10%
Total liabilities	25,489,744	23,287,191	(2,202,553)	-9%
Net Position				
Net investment in capital assets	33,844,221	34,285,748	441,527	1%
Restricted		452,873	452,873	100%
Unrestricted	113,085	(92,330)	(205,415)	-182%
Total net position	<u>\$ 33,957,306</u>	<u>\$ 34,646,291</u>	<u>\$ 688,985</u>	2%

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

	Business-type Activities			Percent Change
	2013	2014	Change	
Operating Revenue	\$ 9,757,140	\$ 10,040,371	\$ 283,231	3%
Operating Expenses - Other than depreciation	6,821,628	6,528,602	(293,026)	-4%
Depreciation and Amortization	<u>2,358,971</u>	<u>2,357,816</u>	<u>(1,155)</u>	0%
Operating income	576,541	1,153,953	577,412	
Property Tax Revenue	99,694	99,206	(488)	0%
Interest Income	9,073	9,208	135	1%
Interest Expense	<u>642,071</u>	<u>663,382</u>	<u>21,311</u>	3%
Transfers	<u>-</u>	<u>90,000</u>	<u>90,000</u>	100%
Change in Net Position	<u>\$ 43,237</u>	<u>\$ 688,985</u>	<u>\$ 645,748</u>	1494%

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 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.

Water and Sewer Fund - The Water and Sewer Activity'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 9 percent in 2014 and 2.25 percent in 2013. 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 1 percent. Liabilities were also reduced by 9 percent due to the reduction of long-term debt. Total net position of the business-type activities showed an increase of \$689,000.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on page 15, 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 2014 were police (\$2.41 million), fire (\$1.39 million), and general government services of \$1.81 million.

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

	Governmental Funds				
	2012	2013	2014	Change	Percent Change
Revenue					
Property taxes and income taxes	\$ 5,329,171	\$ 4,926,112	\$ 4,847,479	\$ (78,633)	-2%
Charges for services	1,117,945	1,063,581	1,057,548	(6,033)	-1%
Licenses and permits	276,485	269,187	269,998	811	0%
State-shared revenues	1,605,906	1,666,010	1,725,269	59,259	4%
Act 51 funding	642,958	650,439	668,475	18,036	3%
Federal, state, and local grants	588,237	591,830	682,919	91,089	15%
Fines and forfeitures	179,717	113,214	145,451	32,237	28%
Interest and rentals	20,410	9,394	10,614	1,220	13%
Special assessments	41,365	60,834	60,500	(334)	-1%
Other	761,167	364,039	503,961	139,922	38%
Total revenue	10,563,361	9,714,640	9,972,214	257,574	3%
Expenditures					
Current:					
General government	1,952,457	2,005,837	1,813,165	(192,672)	-10%
Public safety	4,314,855	4,305,225	4,402,026	96,801	2%
Public works	1,953,827	2,109,834	2,090,472	(19,362)	-1%
Recreation and culture	209,821	226,080	237,364	11,284	5%
Other functions	1,690,229	1,720,967	1,718,520	(2,447)	0%
Total expenditures	10,121,189	10,367,943	10,261,547	(106,396)	-1%
Excess of Revenue Over (Under) Expenditures					
	442,172	(653,303)	(289,333)	363,970	-56%
Transfers - Net	-	-	(90,000)	(90,000)	-100%
Net Change in Fund Balance	442,172	(653,303)	(379,333)	273,970	-42%
Fund Balances - Beginning of year	5,367,470	5,809,642	5,156,339	(653,303)	-11%
Fund Balances - End of year	\$ 5,809,642	\$ 5,156,339	\$ 4,777,006	\$ (379,333)	-7%

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

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 unanticipated increases in grant revenue. In revenue, the most significant changes from the prior year were increases in refunds from health insurance, and increases in recreation fees and revenue sharing. As for expenses, we did see slight decreases in several departments but the City did transfer funds to the Auto Parking Fund.

Overall, the City was able to decrease expenditures by 2 percent; however, the total net change in fund balance was a decrease of \$411,446.

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, 2014 is \$1,989,000.

In the current year, the City did not issue any new debt nor were there any changes to existing debt obligations other than payment of scheduled principal payments. Please see Note 6 - Long-term Debt for additional information.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face difficulty in balancing its budget due to inherent limitations on its primary sources of revenue. The three major sources for the City are property taxes, state-shared revenue, and fees and charges, all of which are subject to limitations.

The City of Mount Clemens' budget for the 2015 fiscal year reflects a minimal decrease in the City's taxable value of 1 percent. This will produce a decrease in tax collections of \$52,000 for the City's General Fund. On a positive note, current projections have this trend reversing; with an increase in taxable value forecast for the 2016 fiscal year. Associated revenue would then increase as well though the pace of the recovery and/or the restrictions that are present in the Michigan municipal finance model will slow the rebound in revenues.

State-shared revenue has shown a slight increase in recent years (2014 - \$59,000, 2013 - \$60,000) and slight increases are projected for future years. Through the use of long-term planning, the City will evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

During fiscal year 2014, four of the five union contracts were settled. The employee pay remained the same as it has for the past five years; the only change has been the Public Act 152 Publicly Funded Health Insurance Contribution Act. The City opted for the "hardcap" provision which caps the employer contributions to medical benefit plans offered to employees. The City realized savings of \$127,000 in 2014.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City has been able to maintain a healthy fund balance in recent years that has afforded the time and opportunity to pursue additional adjustments to improve the City's financial position. First, City government has and will continue to maintain a sharp focus on efficiently and effectively delivering services to the community. Second, voters of the community passed a Charter Amendment on August 5, 2014 which raised the ad valorem property tax authority from 15 mills to 20 mills; 56 percent of voters supported this increase. This exciting development should have a meaningful impact on revenues and stabilize the financial operations of the City. The City Commission will decide the millage rate when the budget for the 2016 fiscal year is approved.

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, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,778,042	\$ 1,361,275	\$ 5,139,317	\$ 267,991
Investments (Note 3)	-	539,199	539,199	-
Receivables:				
Property taxes receivable	125,377	-	125,377	-
Customers	-	1,440,536	1,440,536	1,500
Accrued interest receivable	2,528	846	3,374	-
Other receivables	364,530	88,429	452,959	-
Due from other governmental units	545,075	-	545,075	1,616
Allowance for doubtful accounts	(90,000)	(127,932)	(217,932)	-
Internal balances (Note 5)	594,846	(594,846)	-	-
Inventories	-	6,694	6,694	-
Prepaid expenses	209,199	70,895	280,094	-
Restricted assets (Note 6)	-	503,379	503,379	-
Investment in joint ventures (Note 15)	585,257	-	585,257	-
Other current assets	39,202	-	39,202	-
Capital assets (Note 4):				
Assets not subject to depreciation	2,791,978	3,637,078	6,429,056	151,892
Assets subject to depreciation	8,658,729	50,936,959	59,595,688	-
Other assets	-	47,049	47,049	-
Total assets	17,604,763	57,909,561	75,514,324	422,999
Deferred Outflows of Resources -				
Bond refunding loss being amortized	-	23,921	23,921	-
Liabilities				
Accounts payable	183,474	200,294	383,768	11,954
Due to other governmental units	283	-	283	-
Accrued and other liabilities	111,200	220,134	331,334	-
Unearned revenue	-	806,976	806,976	-
Noncurrent liabilities:				
Due within one year (Note 6):				
Payable from restricted assets	-	434,881	434,881	-
Compensated absences	300,000	-	300,000	-
Current portion of long-term debt	139,162	2,407,881	2,547,043	-
Due in more than one year:				
Compensated absences (Note 6)	463,030	124,449	587,479	-
Accrued settlement (Note 7)	900,000	-	900,000	-
Net OPEB obligation (Note 14)	3,762,645	1,572,622	5,335,267	-
Net pension obligation (Note 13)	862,533	-	862,533	-
Long-term debt (Note 6)	2,081,031	17,519,954	19,600,985	-
Total liabilities	8,803,358	23,287,191	32,090,549	11,954
Net Position				
Net investment in capital assets	9,230,514	34,285,748	43,516,262	151,892
Restricted for:				
Streets	1,378,106	-	1,378,106	-
Debt service	389,107	-	389,107	-
Transportation	176,241	-	176,241	-
Public improvement	34,254	-	34,254	-
Revenue bond ordinance	-	452,873	452,873	-
Unrestricted	(2,406,817)	(92,330)	(2,499,147)	259,153
Total net position	\$ 8,801,405	\$ 34,646,291	\$ 43,447,696	\$ 411,045

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
Primary government:			
Governmental activities:			
General government	\$ 4,637,294	\$ 529,295	\$ 74,250
Public safety	5,145,845	414,831	874
Public works	2,273,718	112,449	1,281,634
Recreation and culture	361,450	88,807	296
Total governmental activities	12,418,307	1,145,382	1,357,054
Business-type activities:			
Sewage disposal system	4,251,603	4,130,508	-
Water supply system	2,493,408	3,059,280	-
Sanitary system	895,853	803,622	-
Automobile parking system	576,091	563,349	-
Ice arena	1,332,845	1,483,612	-
Total business-type activities	9,549,800	10,040,371	-
Total primary government	<u>\$ 21,968,107</u>	<u>\$ 11,185,753</u>	<u>\$ 1,357,054</u>
Component unit - Downtown Development Authority	<u>\$ 293,361</u>	<u>\$ 104,160</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 (as restated) (Note 16)			
Net Position - End of year			

Statement of Activities
Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,033,749)	\$ -	\$ (4,033,749)	\$ -
(4,730,140)	-	(4,730,140)	-
(879,635)	-	(879,635)	-
(272,347)	-	(272,347)	-
(9,915,871)	-	(9,915,871)	-
-	(121,095)	(121,095)	-
-	565,872	565,872	-
-	(92,231)	(92,231)	-
-	(12,742)	(12,742)	-
-	150,767	150,767	-
-	490,571	490,571	-
(9,915,871)	490,571	(9,425,300)	-
-	-	-	(189,201)
4,877,327	99,206	4,976,533	213,548
1,725,269	-	1,725,269	-
10,657	9,208	19,865	-
240,050	-	240,050	-
674,506	-	674,506	-
7,527,809	108,414	7,636,223	213,548
(90,000)	90,000	-	-
(2,478,062)	688,985	(1,789,077)	24,347
11,279,467	33,957,306	45,236,773	386,698
\$ 8,801,405	\$ 34,646,291	\$ 43,447,696	\$ 411,045

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2014

	Major Fund - General Fund	Nonmajor Funds	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 2,020,651	\$ 1,536,344	\$ 3,556,995
Receivables:			
Taxes	125,377	-	125,377
Accrued interest receivable	1,563	965	2,528
Other receivables	337,408	18,936	356,344
Other governmental units	353,570	191,505	545,075
Allowance for doubtful accounts	(90,000)	-	(90,000)
Advances to other funds (Note 5)	594,846	-	594,846
Prepaid expenses	190,320	10,394	200,714
Other current assets	39,202	-	39,202
	<u>\$ 3,572,937</u>	<u>\$ 1,758,144</u>	<u>\$ 5,331,081</u>
Total assets			
Liabilities			
Accounts payable	\$ 120,083	\$ 49,892	\$ 169,975
Due to other governmental units	283	-	283
Accrued and other liabilities	89,567	19,651	109,218
	<u>209,933</u>	<u>69,543</u>	<u>279,476</u>
Total liabilities			
Deferred Inflows of Resources -			
Unavailable revenue	274,599	-	274,599
Fund Balances			
Nonspendable:			
Prepays	190,320	10,394	200,714
Long-term receivable	594,846	-	594,846
Restricted:			
Right-of-way maintenance	-	258,436	258,436
Street construction	-	1,119,670	1,119,670
Transportation	-	165,847	165,847
Public improvement	-	34,254	34,254
Assigned:			
Subsequent year's budget	1,113,030	-	1,113,030
Local street construction	-	100,000	100,000
Unassigned	1,190,209	-	1,190,209
	<u>3,088,405</u>	<u>1,688,601</u>	<u>4,777,006</u>
Total fund balances			
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,572,937</u>	<u>\$ 1,758,144</u>	<u>\$ 5,331,081</u>

City of Mount Clemens, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$ 4,777,006
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	10,479,988
Investments in joint ventures are not financial resources and are not reported in the funds	585,257
Certain receivables are expected to be collected over several years and are not available	274,599
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(1,989,000)
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	(739,464)
Underpayment of actuarially determined pension contributions is not reported as liabilities in the funds	(862,533)
The current cost of other postemployment benefits is not due and payable in the current period and is not reported in the funds	(3,762,645)
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	(900,000)
Internal Service Funds are included as part of governmental activities	<u>938,197</u>
Net Position of Governmental Activities	<u>\$ 8,801,405</u>

City of Mount Clemens, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	Major Fund - General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	\$ 4,548,706	\$ 298,773	\$ 4,847,479
Licenses and permits	269,998	-	269,998
Federal entitlement and grant revenue	217,203	-	217,203
State-shared grants and other revenue	1,746,830	1,112,630	2,859,460
Charges for services	938,810	118,738	1,057,548
Fines and fees	145,451	-	145,451
Investment income	7,801	2,813	10,614
Other revenue:			
Special assessments	-	60,500	60,500
Other miscellaneous revenue	488,020	15,941	503,961
Total revenue	8,362,819	1,609,395	9,972,214
Expenditures - Current			
General government	1,813,165	-	1,813,165
Public safety	4,402,026	-	4,402,026
Public works	513,190	1,577,282	2,090,472
Recreation	237,364	-	237,364
Other functions	1,718,520	-	1,718,520
Total expenditures	8,684,265	1,577,282	10,261,547
Excess of Expenditures Over Revenue	(321,446)	32,113	(289,333)
Other Financing Uses - Transfers out (Note 5)	(90,000)	-	(90,000)
Net Change in Fund Balances	(411,446)	32,113	(379,333)
Fund Balances - Beginning of year	3,499,851	1,656,488	5,156,339
Fund Balances - End of year	\$ 3,088,405	\$ 1,688,601	\$ 4,777,006

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (379,333)

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	35,431
Depreciation expense	(537,277)
Adjustment of court building value	255,000
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	14,813
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	51,000
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	7,990
Contributions to fund employee pensions made below actuarially determined amounts are not reported as assets in the funds	(228,496)
The current cost of other postemployment benefits is recorded when incurred in the statement of activities	(976,725)
Income from joint ventures are not recorded in the funds	10,515
Expenses related to claims and similar liabilities are recognized when incurred in the funds	(625,992)
Internal Service Funds are included as part of governmental activities	(104,988)
Change in Net Position of Governmental Activities	<u>\$ (2,478,062)</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)	\$ 1,063,408	\$ -	\$ 104,194	\$ 105,057
Investments (Note 3)	-	-	539,199	-
Receivables:				
Customers	763,579	548,937	88	-
Accrued interest receivable	501	345	-	-
Other receivables	69,746	7,858	3,389	7,436
Allowance for doubtful accounts	-	-	-	-
Inventory	6,694	-	-	-
Prepaid expenses and other assets	32,433	28,570	5,794	4,098
Total current assets	1,936,361	585,710	652,664	116,591
Noncurrent assets:				
Restricted assets	-	503,379	-	-
Advances to other funds (Note 5)	708,549	-	-	-
Capital assets (Note 4):				
Assets not subject to depreciation	-	-	-	3,637,078
Assets subject to depreciation	32,853,948	13,665,448	-	1,734,786
Other assets	-	-	-	47,049
Total noncurrent assets	33,562,497	14,168,827	-	5,418,913
Total assets	35,498,858	14,754,537	652,664	5,535,504
Deferred Outflows of Resources -				
Bond refunding loss being amortized	-	-	-	-
Liabilities				
Current liabilities:				
Accounts payable	83,820	35,275	65,788	1,525
Accrued liabilities and other	77,979	11,535	4,638	78,380
Unearned revenue	806,976	-	-	-
Current portion of long-term debt (Note 6)	1,238,006	498,125	-	275,000
Total current liabilities	2,206,781	544,935	70,426	354,905
Noncurrent liabilities:				
Advances from other funds (Note 5)	-	708,549	-	-
Payable from restricted assets (Note 6)	-	434,881	-	-
Compensated absences (Note 6)	45,372	58,980	13,669	6,428
Net OPEB obligation (Note 14)	873,785	698,837	-	-
Long-term debt - Net of current portion (Note 6)	7,097,361	6,755,843	-	3,275,000
Total noncurrent liabilities	8,016,518	8,657,090	13,669	3,281,428
Total liabilities	10,223,299	9,202,025	84,095	3,636,333
Net Position				
Net investment in capital assets	24,518,581	6,027,105	-	1,821,864
Restricted for revenue bond ordinance	-	452,873	-	-
Unrestricted	756,978	(927,466)	568,569	77,307
Total net position	\$ 25,275,559	\$ 5,552,512	\$ 568,569	\$ 1,899,171

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

**Proprietary Funds
Statement of Net Position
June 30, 2014**

Enterprise Funds		Governmental Activities
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund
\$ 88,616	\$ 1,361,275	\$ 221,047
-	539,199	-
127,932	1,440,536	-
-	846	-
-	88,429	8,186
(127,932)	(127,932)	-
-	6,694	-
-	70,895	8,485
88,616	3,379,942	237,718
-	503,379	-
-	708,549	-
-	3,637,078	-
2,682,777	50,936,959	970,719
-	47,049	-
2,682,777	55,833,014	970,719
2,771,393	59,212,956	1,208,437
23,921	23,921	-
13,886	200,294	13,499
47,602	220,134	1,982
-	806,976	-
396,750	2,407,881	88,162
458,238	3,635,285	103,643
594,846	1,303,395	-
-	434,881	-
-	124,449	23,566
-	1,572,622	-
391,750	17,519,954	143,031
986,596	20,955,301	166,597
1,444,834	24,590,586	270,240
1,918,198	34,285,748	739,526
-	452,873	-
(567,718)	(92,330)	198,671
\$ 1,350,480	\$ 34,646,291	\$ 938,197

City of Mount Clemens, Michigan

	Enterprise Funds			
	Sewage Disposal System	Water Supply System	Sanitary Department	Automobile Parking System
Operating Revenue				
Customer billings	\$ 4,094,334	\$ 2,900,567	\$ 773,905	\$ 560,564
Billings to other funds	-	-	-	-
Other revenue	36,174	158,713	29,717	2,785
Total operating revenue	4,130,508	3,059,280	803,622	563,349
Operating Expenses				
Cost of materials	102,019	124,603	3,878	7,215
Water supply and sewage disposal	1,715,636	1,029,661	-	-
Maintenance and operations	-	-	841,975	221,901
General and administrative	827,777	507,733	50,000	-
Depreciation and amortization	1,357,420	620,445	-	194,436
Total operating expenses	4,002,852	2,282,442	895,853	423,552
Operating Income (Loss)	127,656	776,838	(92,231)	139,797
Nonoperating Revenue (Expense)				
Property tax revenue	-	-	99,206	-
Investment income	1,157	826	7,082	-
Interest expense	(248,751)	(210,966)	-	(152,539)
Total nonoperating (expense) revenue	(247,594)	(210,140)	106,288	(152,539)
(Loss) Income - Before transfers in	(119,938)	566,698	14,057	(12,742)
Transfers in	-	-	-	90,000
Change in Net Position	(119,938)	566,698	14,057	77,258
Net Position - Beginning of year (as restated) (Note 16)	25,395,497	4,985,814	554,512	1,821,913
Net Position - End of year	\$ 25,275,559	\$ 5,552,512	\$ 568,569	\$ 1,899,171

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2014

Enterprise Funds		Governmental Activities
Ice Arena	Total	Proprietary Internal Service Fund
\$ 1,483,612	\$ 9,812,982	\$ -
-	-	707,985
-	227,389	15,547
1,483,612	10,040,371	723,532
89,374	327,089	197,533
-	2,745,297	-
984,355	2,048,231	284,679
22,475	1,407,985	96,739
185,515	2,357,816	234,059
1,281,719	8,886,418	813,010
201,893	1,153,953	(89,478)
-	99,206	-
143	9,208	43
(51,126)	(663,382)	(15,553)
(50,983)	(554,968)	(15,510)
150,910	598,985	(104,988)
-	90,000	-
150,910	688,985	(104,988)
1,199,570	33,957,306	1,043,185
\$ 1,350,480	\$ 34,646,291	\$ 938,197

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	\$ 4,141,563	\$ 2,921,234	\$ 777,057	\$ 559,388
Payments to suppliers	(1,342,582)	(771,853)	(765,042)	(74,666)
Payments to employees	(1,033,386)	(742,491)	(132,949)	(159,930)
Other receipts	83,557	158,709	33,306	2,784
Net cash provided by (used in) operating activities	1,849,152	1,565,599	(87,628)	327,576
Cash Flows from Noncapital Financing Activities -				
Transfers from other funds	-	-	-	90,000
Property taxes not restricted for capital activities	-	-	99,206	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(128,645)	(193,019)	-	-
Principal and interest paid on capital debt	(1,458,064)	(1,082,280)	-	(402,875)
Net cash used in capital and related financing activities	(1,586,709)	(1,275,299)	-	(402,875)
Cash Flows from Investment Activities				
Interest received on investments	1,157	821	7,082	-
Purchases of investment securities	-	-	(257,090)	-
Net cash provided by (used in) investing activities	1,157	821	(250,008)	-
Net Increase (Decrease) in Cash and Cash Equivalents	263,600	291,121	(238,430)	14,701
Cash and Cash Equivalents - Beginning of year	799,808	212,258	342,624	90,356
Cash and Cash Equivalents - End of year	\$ 1,063,408	\$ 503,379	\$ 104,194	\$ 105,057
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 1,063,408	\$ -	\$ 104,194	\$ 105,057
Restricted cash and cash equivalents	-	503,379	-	-
Total cash and cash equivalents	\$ 1,063,408	\$ 503,379	\$ 104,194	\$ 105,057
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 127,656	\$ 776,838	\$ (92,231)	\$ 139,797
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	1,357,420	620,445	-	194,436
Changes in assets and liabilities:				
Receivables	30,873	20,663	6,741	(1,177)
Prepaid and other assets	(12)	(1,074)	(43)	(5,403)
Accounts payable	61,957	11,419	(2,708)	(123)
Accrued and other liabilities	1,615	39	613	46
Unearned revenue	63,739	-	-	-
Net OPEB obligation	205,904	137,269	-	-
Net cash provided by (used in) operating activities	\$ 1,849,152	\$ 1,565,599	\$ (87,628)	\$ 327,576

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2014**

Enterprise Funds		Governmental Activities	
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund	
\$ 1,440,323	\$ 9,839,565	\$ 702,898	
(612,339)	(3,566,482)	(365,348)	
(528,026)	(2,596,782)	(206,982)	
-	278,356	15,548	
299,958	3,954,657	146,116	
-	90,000	-	
-	99,206	-	
(43,574)	(365,238)	(11,561)	
(353,097)	(3,296,316)	(115,029)	
(396,671)	(3,661,554)	(126,590)	
18,272	27,332	43	
-	(257,090)	-	
18,272	(229,758)	43	
(78,441)	252,551	19,569	
167,057	1,612,103	201,478	
\$ 88,616	\$ 1,864,654	\$ 221,047	
\$ 88,616	\$ 1,361,275	\$ 221,047	
-	503,379	-	
\$ 88,616	\$ 1,864,654	\$ 221,047	
\$ 201,893	\$ 1,153,953	\$ (89,478)	
185,515	2,357,816	234,059	
-	57,100	(5,086)	
(43,289)	(49,821)	(596)	
(46,590)	23,955	7,875	
2,429	4,742	(658)	
-	63,739	-	
-	343,173	-	
\$ 299,958	\$ 3,954,657	\$ 146,116	

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Pension and Other Employee Benefits Trust Fund	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 331,206	\$ 214,389
Investments (Note 3):		
U.S. government securities	2,281,914	-
Commercial paper	25,952,398	-
Common stock	17,874,155	-
Corporate bonds	6,293,352	-
U.S. mortgage-backed securities	3,088,670	-
U.S. collateralized mortgage obligations	1,539,092	-
Corporate asset-backed securities	2,027,283	-
Corporate collateralized mortgage obligations	3,612,260	-
Private placement bonds	5,095	-
Receivables:		
Miscellaneous	-	2,484
Accrued interest receivable	132,544	-
Total assets	<u>63,137,969</u>	<u>\$ 216,873</u>
Liabilities		
Accounts payable	12,307	\$ -
Due to other governmental units	-	8,080
Cash bonds and deposits	-	208,793
Total liabilities	<u>12,307</u>	<u>\$ 216,873</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u><u>\$ 63,125,662</u></u>	

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, 2014

	Pension and Other Employee Benefits Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 2,706,173
Net increase in fair value of investments	6,719,524
Investment-related expenses	(221,462)
Net investment income	9,204,235
Contributions:	
Employer	505,403
Employee	268,110
Total contributions	773,513
Total additions	9,977,748
Deductions	
Benefit payments	4,328,344
Refunds of contributions	72,948
Total deductions	4,401,292
Net Increase in Net Position Held in Trust	5,576,456
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	57,549,206
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 63,125,662

City of Mount Clemens, Michigan

Component Unit Statement of Net Position June 30, 2014

	Downtown Development Authority
Assets	
Cash and cash equivalents	\$ 267,991
Receivables:	
Receivables from sales to customers on account	1,500
Due from other governmental units	1,616
Capital assets not subject to depreciation	<u>151,892</u>
Total assets	422,999
Liabilities - Accounts payable	<u>11,954</u>
Net Position	
Net investment in capital assets	151,892
Unrestricted	<u>259,153</u>
Total net position	<u><u>\$ 411,045</u></u>

City of Mount Clemens, Michigan

Component Units Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority
Downtown Development Authority	\$ 293,361	\$ 104,160	\$ -	\$ -
				213,548
				24,347
				386,698
				\$ 411,045

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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 legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

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, 2014

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 revenues 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (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 revenues 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 revenues 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.

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 revenues were used. The various funds are aggregated into three broad fund types:

Note I - Summary of Significant Accounting Policies (Continued)

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.

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and the internal service fund (which provide 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.

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.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Basis of Accounting

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

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

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are 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."

Note I - Summary of Significant Accounting Policies (Continued)

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

Specific Balances and Transactions

Cash, 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 \$3.9 million of the assets held by the pension plan at June 30, 2014 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.

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 fair market value at the date of donation.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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

Capital Asset Class	Lives
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.

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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The unamortized portion of the loss on a bond refunding is reported as a deferred outflow in the proprietary funds.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) 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 revenues collected beyond the City's period of availability. The governmental funds report unavailable from various sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the 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.

Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Honorable Mayor and City Commission is 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes 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 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the City totaled \$328.0 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 13.7097 mills for operating purposes, .9137 mills for police and fire pension, .9137 mills for Dial-A-Ride services, .1480 mills for municipal promotion, and .3000 mills for sanitation services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$4.6 million for operating purposes, \$295,000 for police and fire pension, \$295,000 for Dial-A-Ride services, \$49,000 for municipal promotion, and \$99,000 for sanitation services. These amounts are recognized in the respective General Fund and special revenue, and enterprise fund financial statements as tax revenue.

Pension and Other Postemployment Benefit Costs - The City offers both pension and 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, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund is generally used to liquidate the net pension obligation. The General Fund, Water Supply System Fund, and Sewage Disposal System Fund are generally used to liquidate the net OPEB obligation.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues 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 revenues and expenses not meeting this definition are reported as nonoperating revenues 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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

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.

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, 2013		\$ (1,166,679)
Current year permit revenue		227,532
Related expenses:		
Direct costs	\$ 156,310	
Estimated indirect costs	<u>15,631</u>	<u>171,941</u>
Current year surplus		<u>55,591</u>
Cumulative shortfall at June 30, 2014		<u><u>\$ (1,111,088)</u></u>

Fund Deficits - The City has accumulated a deficit of unrestricted net position in the Ice Arena Fund. A plan to eliminate the deficit has been filed with the State of Michigan Local Audit Finance Division.

Noncompliance with Legal or Contractual Provisions - At June 30, 2014, the City was not in compliance with the provisions of water supply revenue bond covenants, which require cash and cash equivalents to be accumulated in a restricted account. In addition, as disclosed in Note 13, the City did not fully fund the recommended pension contribution as determined by the actuary which violates Article 9 of the Michigan Constitution.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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

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:		
Accounting	\$ 84,090	\$ 84,358
Property tax refunds	50,000	61,072
Controller	77,300	77,593
Inspection	152,000	156,310
Sewage services	2,000	2,020
Parks and stadium	191,660	206,069

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 mature 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, 2014, the City's deposits and investments are in accordance with statutory authority.

Investment values are determined based on cost for short-term investments. For securities traded on national or international exchanges, fair value is determined by the last reported sales price at current exchange rates.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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 third-party custodian's failure, the City's deposits and investments 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 \$4.64 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 with which it deposits or invests funds 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.

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	\$ 17,874,155	Counterparty
Mutual funds	25,952,398	Counterparty
Corporate bonds	6,293,352	Counterparty
Corporate asset-backed securities	2,027,283	Counterparty
Corporate collateralized mortgage obligations	3,612,260	Counterparty
U.S. government collateralized mortgage obligations	1,539,092	Counterparty
U.S. government mortgage-backed securities	3,088,670	Counterparty
U.S. government treasuries, notes, and bonds	2,169,554	Counterparty
Private placement	5,095	Counterparty
Other municipal	95,704	Counterparty
Other U.S. government	16,657	Counterparty
Total investments	\$ 62,674,220	Counterparty

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy 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	\$ 2,027,283	6.55 years
Corporate bonds	6,293,352	7.87 years
Corporate collateralized mortgage obligations	3,612,260	26.57 years
U.S. government collateralized mortgage obligations	1,539,092	13.15 years
U.S. government mortgage-backed	3,088,670	32.46 years
U.S. government treasuries, notes, and bonds	2,169,554	21.08 years
Other U.S. government	16,657	30.02 years
Private placement	5,095	4.34 years
Other municipal	95,704	2.96 years
Total	<u>\$ 18,847,667</u>	

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	\$ 1,346,874	\$ -	\$ 680,409
Corporate bonds	2,713,745	3,579,607	-
Corporate collateralized mortgage obligations	1,877,615	561,597	1,173,048
Private Placement	-	5,095	-
U.S. government collateralized mortgage obligations	-	-	1,539,092
U.S. government mortgage-backed	-	-	3,088,670
U.S. government treasuries, notes, and bonds	-	-	2,169,554
Other U.S. government	-	-	16,657
Municipal	95,704	-	-
Total	<u>\$ 6,033,938</u>	<u>\$ 4,146,299</u>	<u>\$ 8,667,430</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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, 2014, the City's Pension Fund maintained investments in Loomis Sayles Global Equity and Income Fund totaling approximately 18.20 percent of the Pension Fund's total investments, Loomis Sayles Small Cap Value Fund totaling approximately 14.39 percent of the Pension Fund's total investments, Loomis Sayles Capital Income Fund totaling approximately 8.62 percent of the Pension Fund's total investments, and Loomis Sayles Senior Loan Fund totaling approximately 6.23 percent of the Pension Fund's total investments.

Note 4 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals/ Adjustments	Balance June 30, 2014
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	6,560,113	-	255,000	6,815,113
Machinery and equipment	6,964,817	46,992	-	7,011,809
Land improvements	2,978,203	-	-	2,978,203
Roads and bridges	9,758,841	-	-	9,758,841
Subtotal	28,020,566	46,992	255,000	28,322,558
Accumulated depreciation:				
Sidewalks	1,555,706	41,296	-	1,597,002
Buildings and improvements	2,688,764	82,838	-	2,771,602
Machinery and equipment	5,642,552	292,006	-	5,934,558
Land improvements	2,662,299	36,168	-	2,698,467
Roads and bridges	6,343,172	319,028	-	6,662,200
Subtotal	18,892,493	771,336	-	19,663,829
Net capital assets being depreciated	9,128,073	(724,344)	255,000	8,658,729
Net capital assets	\$ 11,920,051	\$ (724,344)	\$ 255,000	\$ 11,450,707

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2013	Additions	Disposals/ Adjustments	Balance June 30, 2014
Capital assets not being depreciated -				
Land	\$ 3,637,078	\$ -	\$ -	\$ 3,637,078
Capital assets being depreciated:				
Plant facilities	24,860,789	85,819	-	24,946,608
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	10,930,981	279,419	-	11,210,400
Land improvements	1,547,654	-	-	1,547,654
Subtotal	104,050,579	365,238	-	104,415,817
Accumulated depreciation:				
Plant facilities	14,059,623	601,067	-	14,660,690
Production facilities	9,517,791	403,446	-	9,921,237
Transmission facilities	3,969,538	217,040	-	4,186,578
Tunnel and retention basins	15,113,777	738,009	-	15,851,786
Vehicles	7,207,539	354,862	-	7,562,401
Land improvements	1,258,002	38,164	-	1,296,166
Subtotal	51,126,270	2,352,588	-	53,478,858
Net capital assets being depreciated	52,924,309	(1,987,350)	-	50,936,959
Net capital assets	\$ 56,561,387	\$ (1,987,350)	\$ -	\$ 54,574,037

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

Governmental activities:

General government	\$ 342,561
Public safety	23,200
Public works	375,002
Recreation and culture	30,573
Total governmental activities	<u>\$ 771,336</u>

Business-type activities:

Sewage disposal	\$ 1,357,420
Water supply system	620,445
Automobile parking system	189,208
Ice arena	185,515
Total business-type activities	<u>\$ 2,352,588</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances from/to Other Funds		
General Fund	Ice Arena	\$ 594,846
Sewage Disposal System	Water Supply System	<u>708,549</u>
	Total	<u>\$ 1,303,395</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:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Automobile Parking System	\$ 90,000

The transfer from the General Fund to the Automobile Parking System Fund provided funding for operations.

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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment purchase agreement - Fire pumper	\$ 88,186	\$ -	\$ 43,176	\$ 45,010	\$ 45,010
Installment purchase agreement - Vactor jet	227,163	-	40,980	186,183	43,152
General obligation bonds - Series 2006 41B District Court Building (Note 15)	2,040,000	-	51,000	1,989,000	51,000
Total	2,355,349	-	135,156	2,220,193	139,162
Total accrued sick and vacation liability	786,340	276,690	300,000	763,030	300,000
Total governmental activities	<u>\$ 3,141,689</u>	<u>\$ 276,690</u>	<u>\$ 435,156</u>	<u>\$ 2,983,223</u>	<u>\$ 439,162</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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	\$ 2,135,000	\$ -	\$ 285,000	\$ 1,850,000	\$ 290,000
1998A-2 Sewage Disposal System Bonds	1,747,767	-	238,342	1,509,425	243,206
1999A Sewage Disposal System Bonds	3,350,000	-	445,000	2,905,000	455,000
1998 B Sewage Disposal System Bonds	750,000	-	125,000	625,000	150,000
1999 B Sewage Disposal System Bonds	450,000	-	50,000	400,000	50,000
2010 Clean Water Program Proj. 5477-01	1,095,942	-	50,000	1,045,942	50,000
2001 Ice Arena Building Authority Refunding Bonds	1,140,250	-	351,750	788,500	396,750
2003 Parking Improvement Bonds	3,800,000	-	250,000	3,550,000	275,000
Revenue obligations - 1998B Water Supply System Revenue Bonds	400,000	-	50,000	350,000	50,000
State Drinking Water Revolving Fund Debt:					
1998A Water Supply System Revenue Bonds	345,000	-	45,000	300,000	45,000
1998A-2 Water Supply System Revenue Bonds	797,000	-	108,000	689,000	112,500
1999A Water Supply System Revenue Bonds	1,975,000	-	260,000	1,715,000	270,000
2000A Water Supply System Revenue Bonds	900,000	-	105,000	795,000	105,000
2000A-2 Water Supply System Revenue Bonds	1,065,000	-	105,000	960,000	110,000
2007A Water Supply System Revenue Bonds	2,819,911	-	175,000	2,644,911	180,000
2007B Water Supply System Revenue Bonds	194,432	-	10,000	184,432	10,000
Total bonds payable	22,965,302	-	2,653,092	20,312,210	2,792,456
Long-term portion of accrued sick and vacation liability	155,019	-	30,570	124,449	-
Total business-type activities	<u>\$ 23,120,321</u>	<u>\$ -</u>	<u>\$ 2,683,662</u>	<u>\$ 20,436,659</u>	<u>\$ 2,792,456</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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
2015	\$ 139,162	\$ 97,763	\$ 236,925	\$ 2,792,456	\$ 579,732	\$ 3,372,188
2016	113,309	91,071	204,380	2,882,320	492,290	3,374,610
2017	115,575	85,915	201,490	2,560,299	412,163	2,972,462
2018	135,147	80,286	215,433	2,664,663	335,772	3,000,435
2019	85,000	74,175	159,175	2,552,020	260,259	2,812,279
2020-2024	544,000	305,244	849,244	5,625,160	537,307	6,162,467
2025-2029	748,000	164,203	912,203	1,084,343	72,808	1,157,151
2030-2031	340,000	15,300	355,300	150,949	3,785	154,734
Total	\$ 2,220,193	\$ 913,957	\$ 3,134,150	\$ 20,312,210	\$ 2,694,116	\$ 23,006,326

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 \$8,574,869. During the current year, net revenue of the system totaled \$1,398,109 compared to the annual debt requirements of \$1,071,629.

Advance Refundings - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2014, \$400,000 of bonds outstanding is considered defeased.

Current year liabilities payable from restricted assets in the water supply system include \$384,375 of principal and \$50,506 of interest.

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 \$900,000. A liability is included in the government-wide statements for the estimated probable cash flow related to the ongoing activities.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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 - Pension Plan Description

Plan Administration - The Retirement System Board of Trustees manages and administers the City of Mount Clemens Employees' Retirement System - a single-employer defined benefit pension plan that provides pensions for substantially all permanent full-time employees of the City. Benefit terms have been established by contractual agreements between the City 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, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	185
Inactive plan members entitled to but not yet receiving benefits	22
Active plan members	<u>68</u>
Total	<u><u>275</u></u>

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

Note 9 - Pension Plan Description (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 non-union 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 - Pension Plan Description (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, 2014, 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 12.71 percent of annual covered payroll.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

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 Pension Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2014:

<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, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.55 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, 2014

Note 11 - Pension Plan Reserves (Continued)

The balances of the reserve accounts at June 30, 2014 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 42,611,939	\$ 42,611,939
Employee reserve	\$ 5,611,995	\$ 5,611,995
Employer reserve	N/A	\$ 14,901,730

Note 12 - Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the City will adopt GASB Statement No. 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension asset of the City has been measured as of June 30, 2014 and is composed of the following:

Total pension liability	\$ 59,929,172
Plan fiduciary net position	<u>63,125,662</u>
City's net pension asset	<u>\$ (3,196,490)</u>
Plan fiduciary net position as a percentage of the total pension asset	105.3 %

Actuarial Assumptions - The June 30, 2014 total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.25 %
Salary increases	16.08 % 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 12 - Net Pension Liability of the City (Continued)

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Large Cap Value Equity	7.8%
Large Cap Growth Equity	7.8%
Small Cap Equity	8.1%
International Stocks	7.4%
Dividend Strategy Equity	7.6%
U.S. Core Fixed Income	6.9%
Global Fixed Income	7.4%
High Yield Fixed Income	8.7%

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	\$ 2,985,576	\$ (3,196,490)	\$ (8,482,552)

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - City Pension Cost and Related Obligation

The pension plan does not issue a separate financial report.

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 720,624
Interest on net pension obligation	47,553
Adjustment to annual required contribution	<u>(34,278)</u>
Annual pension cost (APC)	733,899
Contributions made	<u>(505,403)</u>
Increase in net pension obligation	228,496
Net pension obligation - Beginning of year	<u>634,037</u>
Net pension obligation - End of year	<u><u>\$ 862,533</u></u>

The change in net pension obligation is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 733,899	\$ 743,598	\$ 782,542
Percentage of APC contributed	68.9 %	69.9 %	71.4 %
Net pension obligation	862,533	634,037	410,553

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 89.6 percent funded. The actuarial accrued liability for benefits was \$59.4 million, and the actuarial value of assets was \$53.2 million, resulting in an unfunded actuarial accrued liability of \$6.2 million. The covered payroll (annual payroll to active employees covered by the plan) was \$3.8 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 162.3 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the 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 liability of benefits.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - City Pension Cost and Related Obligation (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 investment rate of return, (b) projected salary increases of 4.25 to 27.9 percent per year, with no cost of living adjustments. Both (a) and (b) include an inflation component of 4.25 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 27 years.

Note 14 - 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, 2014, the City made payments for postemployment health benefit premiums of approximately \$1,919,000.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 14 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,442,918
Interest on the prior year's net OPEB obligation	180,556
Less adjustment to the annual required contribution	<u>(138,358)</u>
Annual OPEB cost	3,485,116
Amounts contributed:	
Payments of current premiums, including implicit rate subsidy	(2,165,218)
Advance funding	<u>-</u>
Increase in net OPEB obligation	1,319,898
OPEB obligation - Beginning of year	<u>4,015,369</u>
OPEB obligation - End of year	<u>\$ 5,335,267</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	
6/30/14	\$ 3,485,117	64.0 %	\$ 5,335,269
6/30/13	3,173,578	67.5	4,015,369
6/30/12	3,018,163	69.3	2,953,253

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
6/30/13	\$ -	\$ 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
6/30/09	-	42,380,584	42,380,584	-	4,613,101	918.7

Note 14 - 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, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 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 4.50 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, 2013 was 28 years.

Note 15 - 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. The City Commission appoints one member to the Authority's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs. During the year, the City declined to renew its participation in the refuse contract but is still a member of the Authority.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2014

Note 15 - Joint Ventures (Continued)

The City's interest in the net position of the Authority totaled \$196,150 at June 30, 2014 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 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 \$389,107, based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 16 - Change in Accounting

During the current year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources. Implementation resulted in an adjustment to beginning-of-year net position of the Ice Arena Fund. Beginning of year net position was restated from \$1,218,938 to \$1,199,570.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount as of July 1, 2013</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Deferred amounts on debt refundings	\$ 35,881	Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs	19,368	Asset	Outflow of resources (an expense)
Revenue in governmental funds not collected within 60 days of year end	259,786	Liability	Deferred inflow of resources

Note 16 - Change in Accounting (Continued)

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension note have changed considerably, along with the related schedules in the required supplemental information.

Note 17 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. 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 financial statements for the year ending 2015.

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,540,390	\$ 4,528,995	\$ 4,548,706	\$ 19,711
Licenses and permits	291,500	284,700	269,998	(14,702)
Federal grants	120,000	200,875	217,203	16,328
State-shared revenue and grants	1,714,000	1,737,000	1,746,830	9,830
Charges for services:				
Charges, services, and fees	343,800	370,050	370,707	657
Charges for services rendered	240,000	240,000	240,000	-
Charges for services and sales	336,000	364,700	328,103	(36,597)
Fines and forfeitures:				
Parking fines and fees	145,100	145,100	115,342	(29,758)
Use and admission fees	33,000	30,000	30,109	109
Investment income	12,000	5,000	7,801	2,801
Other revenue - Other miscellaneous income	478,000	481,700	488,020	6,320
Total revenue	8,253,790	8,388,120	8,362,819	(25,301)
Expenditures - Current				
General government:				
City Commission	86,900	73,056	73,056	-
City administrator	69,174	82,820	79,477	3,343
Accounting	84,205	84,090	84,358	(268)
Purchasing	139,831	140,656	132,121	8,535
Telephone	31,500	31,500	29,657	1,843
Data processing	103,000	126,000	115,879	10,121
Treasurer	131,160	130,440	129,534	906
Assessing	110,925	110,435	110,031	404
Property tax refunds	25,000	50,000	61,072	(11,072)
City clerk	152,800	145,680	139,320	6,360
Elections	22,650	16,850	16,514	336
Maintenance of municipal buildings	136,808	133,808	126,137	7,671
Legal services	140,000	140,000	137,741	2,259
Personnel	121,815	117,874	117,227	647
Controller	77,265	77,300	77,593	(293)
Planning services	285,537	255,780	248,653	7,127
Auditing services	46,500	45,500	45,500	-
Cable television	75,000	75,000	75,000	-
Community promotions	25,100	15,000	14,295	705
Total general government	1,865,170	1,851,789	1,813,165	38,624
Public safety:				
Police	2,396,746	2,410,399	2,410,399	-
Dispatch center	412,604	412,604	412,604	-
Fire	1,384,890	1,388,181	1,353,149	35,032
Volunteer firemen	52,000	52,000	45,821	6,179
Inspection	152,000	152,000	156,310	(4,310)
Dog warden	26,850	26,850	23,743	3,107
Total public safety	4,425,090	4,442,034	4,402,026	40,008

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Public works:				
Street lighting	\$ 410,000	\$ 410,000	\$ 404,874	\$ 5,126
Sewage services	2,000	2,000	2,020	(20)
Community Development Block Grant	120,000	200,000	106,296	93,704
Total public works	532,000	612,000	513,190	98,810
Recreation and culture:				
Parks and stadium	173,750	191,660	206,069	(14,409)
Programs	21,000	52,175	27,292	24,883
Art Center	5,000	5,090	4,003	1,087
Total recreation and culture	199,750	248,925	237,364	11,561
Other functions	1,766,551	1,755,920	1,718,520	37,400
Total expenditures	8,788,561	8,910,668	8,684,265	226,403
Excess of Expenditures Over Revenue	(534,771)	(522,548)	(321,446)	201,102
Transfers Out	-	(90,000)	(90,000)	-
Net Change in Fund Balance	(534,771)	(612,548)	(411,446)	201,102
Fund Balance - Beginning of year	3,499,851	3,499,851	3,499,851	-
Fund Balance - End of year	<u>\$ 2,965,080</u>	<u>\$ 2,887,303</u>	<u>\$ 3,088,405</u>	<u>\$ 201,102</u>

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2014

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
6/30/08	\$ 54,931,695	\$ 55,546,873	\$ 615,178	98.9	\$ 4,646,808	13.2
6/30/09	53,430,397	55,763,351	2,332,954	95.8	4,644,753	50.2
6/30/10	51,691,868	56,588,177	4,896,309	91.3	4,593,744	106.6
6/30/11	53,126,665	60,091,783	6,965,118	88.4	4,086,498	170.4
6/30/12	52,855,450	59,421,600	6,566,150	88.9	3,822,187	171.8
6/30/13	53,231,065	59,423,594	6,192,529	89.6	3,815,508	162.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/09	6/30/08	\$ 522,454	119.0
6/30/10	6/30/09	704,000	96.0
6/30/11	6/30/10	940,264	60.0
6/30/12	6/30/11	770,584	72.0
6/30/13	6/30/12	734,519	71.0
6/30/14	6/30/13	720,624	70.1

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

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

Amortization method	Level percent of payroll, closed period
Amortization period	27 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.25% - 27.9%
*Includes inflation at	4.25%
Cost of living adjustments	None

City of Mount Clemens, Michigan

Required Supplemental Information Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2014

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
6/30/09	\$ -	\$ 42,380,584	\$ 42,380,584	- %	\$ 4,613,101	918.7
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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/12	6/30/11	\$ 2,997,033	70.0
6/30/13	6/30/11	3,124,407	67.5
6/30/14	6/30/13	3,442,918	64.0

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

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

Amortization method	Level percent of payroll, closed
Amortization period	28 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return *	4.50%
Projected salary increases	4.25%
*Includes inflation at	4.50%
Cost of living adjustments	None

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Year Ended June 30, 2014

Total Pension Liability	
Service cost	\$ 656,926
Interest	4,309,835
Changes in benefit terms	27,047
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	<u>(4,401,292)</u>
Net change in total pension liability	592,516
Total pension liability - Beginning of year	<u>59,336,656</u>
Total pension liability - End of year	<u>\$ 59,929,172</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 505,402
Contributions - Member	268,110
Net investment income	9,217,005
Administrative expenses	(12,919)
Benefit payments, including refunds	(4,401,292)
Other	<u>150</u>
Net change in plan fiduciary net position	5,576,456
Plan fiduciary net position - Beginning of year	<u>57,549,206</u>
Plan fiduciary net position - End of year	<u>\$ 63,125,662</u>
City's net pension asset - Ending	<u>\$ (3,196,490)</u>
Plan fiduciary net position as a % of total pension liability	105.33 %
Covered employee payroll	\$ 3,977,668
City's net pension asset as a % of covered employee payroll	(80.4)%

City of Mount Clemens, Michigan

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	16.6 %	13.6 %	3.5 %	20.6 %	14.2 %	(13.4)%	(3.8)%	15.6 %	7.7 %	9.8 %

Other Supplemental Information

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	
Assets					
Cash and cash equivalents	\$ 823,448	\$ 524,471	\$ 168,905	\$ 19,520	\$ 1,536,344
Receivables:					
Accrued interest receivable	598	111	256	-	965
Other receivables	-	-	536	18,400	18,936
Due from other governmental units	136,528	47,208	7,769	-	191,505
Prepaid expenses	-	-	10,394	-	10,394
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 960,574</u>	<u>\$ 571,790</u>	<u>\$ 187,860</u>	<u>\$ 37,920</u>	<u>\$ 1,758,144</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 33,550	\$ 11,700	\$ 1,309	\$ 3,333	\$ 49,892
Accrued and other liabilities	7,475	1,533	10,310	333	19,651
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	41,025	13,233	11,619	3,666	69,543
Fund Balances					
Nonspendable - Prepays	-	-	10,394	-	10,394
Restricted:					
Right-of-way maintenance	79,382	179,054	-	-	258,436
Street construction	840,167	279,503	-	-	1,119,670
Transportation	-	-	165,847	-	165,847
Downtown maintenance	-	-	-	34,254	34,254
Assigned	-	100,000	-	-	100,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	919,549	558,557	176,241	34,254	1,688,601
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 960,574</u>	<u>\$ 571,790</u>	<u>\$ 187,860</u>	<u>\$ 37,920</u>	<u>\$ 1,758,144</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, 2014

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	
Revenue					
Property taxes	\$ -	\$ -	\$ 298,512	\$ 261	\$ 298,773
State-shared revenue and grants	743,391	316,550	52,689	-	1,112,630
Charges for services	15,000	27,239	76,499	-	118,738
Investment income	1,832	442	539	-	2,813
Other revenue:					
Special assessments	-	-	-	60,500	60,500
Other miscellaneous income	1,831	2,560	11,550	-	15,941
Total revenue	762,054	346,791	439,789	60,761	1,609,395
Expenditures - Current - Public works	746,344	295,495	487,536	47,907	1,577,282
Net Change in Fund Balances	15,710	51,296	(47,747)	12,854	32,113
Fund Balances - Beginning of year	903,839	507,261	223,988	21,400	1,656,488
Fund Balances - End of year	<u>\$ 919,549</u>	<u>\$ 558,557</u>	<u>\$ 176,241</u>	<u>\$ 34,254</u>	<u>\$ 1,688,601</u>

City of Mount Clemens, Michigan

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2014

	Agency Funds		
	Tax Collections	Agency Fund	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 5,596	\$ 208,793	\$ 214,389
Receivables from sales to customers on account	2,484	-	2,484
Total assets	<u>\$ 8,080</u>	<u>\$ 208,793</u>	<u>\$ 216,873</u>
Liabilities			
Due to other governmental units	\$ 8,080	\$ -	\$ 8,080
Cash, bonds, and deposits	-	208,793	208,793
Total liabilities	<u>\$ 8,080</u>	<u>\$ 208,793</u>	<u>\$ 216,873</u>