

AGENDA REPORT

TO: Mayor Pat Humphrey and the Clare City Commission
FROM: Ken Hibl, City Manager
DATE: November 17, 2017
RE: Approval of Audit Reports

For the Agenda of November 21, 2016

Background The public accounting firm of Andrews, Hooper & Pavlik (AHP) of Midland, Michigan conducted an independent audit of the City of Clare's financial records for the City's fiscal year ending June 30, 2016. A qualified representative from the firm is scheduled to publicly present the results of the audit to the Clare City Commission at its regularly scheduled meeting on November 21, 2016. The audit results are unqualified meaning that no significant adverse findings were discovered or noted during the course of the independent audit. A draft copy of the complete audit report is attached for your review prior to the meeting.

The Treasurer/Finance Director, City Clerk and City Manager will have each reviewed the audit report prior to the meeting and will have formally acknowledged the results in writing.

The City Commission is asked to formally approve the audit findings and results as presented by Andrews, Hooper & Pavlik.

Issues & Questions Specified Should the Clare City Commission formally approve the audit report?

Alternatives

1. Approve the audit findings.
2. Do not approve the audit findings.
3. Defer/delay decision to a subsequently scheduled City Commission meeting. Note that the City's annual audit report is required to be completed, presented to the City Commission and submitted to the State Treasury no later than December 31st each year to be in compliance with State law.

Financial Impact The City of Clare is required to file the results of its annual audit with the Michigan Department of Treasury; failure to do so will result in the withholding of state revenue sharing and render the City ineligible for other state and federally funded programs to include grants and loans. Approval of the audit is necessary to allow City Staff to file the audit and other related reports with appropriate state and federal agencies.

Recommendations I recommend that the City Commission formally approve the audit results presented by Andrews, Hooper & Pavlik by adoption of attached Resolution 2015-131.

Attachments

1. Report of Independent Auditors.
2. Fiscal Year 2015/16 Independent Audit Report and Financial Statements.
3. Management Acknowledgement Letter (To be provided during the meeting).
4. Resolution 2016-131.

PRELIMINARY

Audited Financial Statements

City of Clare
Clare and Isabella Counties, Michigan

*Year Ended June 30, 2016
with Report of Independent Auditors*

PRELIMINARY

City of Clare

Audited Financial Statements

Year Ended June 30, 2016

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City of Clare

Audited Financial Statements

Year Ended June 30, 2016

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Report of Independent Auditors

To the City Commission
City of Clare
Clare and Isabella Counties, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information (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, who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 Clare's basic financial statements. The other supplementary information (identified in the table of contents) is presented for purposes of additional analysis and is not a required part of the financial statements.

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The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the City of Clare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clare's internal control over financial reporting and compliance.

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Midland, Michigan
November 21, 2016

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City of Clare

Management's Discussion and Analysis

June 30, 2016

This discussion and analysis of the City of Clare's financial performance provides an overview of the City's financial activities for the year that ended on June 30, 2016. Please read it in conjunction with the financial statements following this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent year by \$14,792,164 (net position). Of this amount, \$(2,740,963) represents negative unrestricted net position. The negative unrestricted net position results from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- The City's total net position decreased by \$679,977.
- At the close of the current year, the City's governmental funds reported combined fund balances of \$1,330,629, a decrease of \$49,510 in comparison with the prior year. Approximately 10% of this amount, which is \$137,202, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unrestricted fund balance (the total of committed, assigned, and unassigned components of fund balance) for the General Fund was \$553,115, or approximately 13% of total General Fund expenditures.
- The City's total outstanding long-term debt increased by \$1,829,055 during the current year due primarily to increases in the City's net pension liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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City of Clare

Management's Discussion and Analysis

June 30, 2016

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments and accrued interest expense).

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Local Development Financing Authority, Downtown Development Authority, and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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City of Clare

Management's Discussion and Analysis

June 30, 2016

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison schedules for each major fund have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to report activities that provide supplies and services to the City's other programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund and Water Fund, each of which is considered to be a major fund of the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one type of fiduciary fund. The agency funds report resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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City of Clare

Management's Discussion and Analysis

June 30, 2016

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to the City's employee benefit plan and the General Fund's and Major Street Fund's performance compared to their budgets.

The combining statements referred to earlier in connection with the nonmajor governmental funds and internal service funds are presented immediately following the aforementioned required supplementary information.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,792,164 at the close of the most recent year.

City of Clare's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 1,454,561	\$ 1,808,578	\$ 1,278,152	\$ 1,661,452	\$ 2,732,713	\$ 3,470,030
Capital assets, net	12,153,212	10,938,541	10,225,660	9,829,527	22,378,872	20,768,068
Total assets	13,607,773	12,747,119	11,503,812	11,490,979	25,111,585	24,238,098
Deferred outflows of resources	(232,313)	32,240	(39,716)	5,824	(272,029)	38,064
Liabilities						
Current liabilities	361,272	553,928	230,652	403,858	591,924	957,786
Long-term liabilities	5,295,864	3,616,732	4,159,604	4,229,503	9,455,468	7,846,235
Total liabilities	5,657,136	4,170,660	4,390,256	4,633,361	10,047,392	8,804,021
Net position						
Invested in capital assets, net of related debt	10,179,028	9,771,735	6,542,706	6,042,573	16,721,734	15,814,308
Restricted	695,597	708,198	115,796	83,225	811,393	791,423
Unrestricted	(3,156,301)	(1,871,234)	415,338	737,644	(2,740,963)	(1,133,590)
Total net position	\$ 7,718,324	\$ 8,608,699	\$ 7,073,840	\$ 6,863,442	\$14,792,164	\$15,472,141

By far, the largest portion of the City's net position (132%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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City of Clare

Management's Discussion and Analysis

June 30, 2016

An additional portion of the City's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining amount of \$(3,156,301) represents negative unrestricted net position created by the recording the net pension obligation as required by GASB 68.

At the end of the current year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

City of Clare's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 832,439	\$ 758,992	\$ 1,476,964	\$ 1,401,672	\$ 2,309,403	\$ 2,160,664
Operating grants and contributions	664,045	460,461	128,766	158,660	792,811	619,121
Capital grants and contributions	440,342	1,101,613	431,014	1,671,027	871,356	2,772,640
General revenues:						
Property taxes and fees	1,590,097	1,634,607	-	-	1,590,097	1,634,607
Grants and contributions not restricted to programs	367,635	308,520	-	-	367,635	308,520
Interest earnings	4,268	4,196	1,378	1,933	5,646	6,129
Gain on sale of assets	3,385	84,225	-	-	3,385	84,225
Miscellaneous	15,427	13,215	6,912	8,803	22,339	22,018
Total revenues	3,917,638	4,365,829	2,045,034	3,242,095	5,962,672	7,607,924
Expenses						
General government	890,099	710,713	-	-	890,099	710,713
Public safety	1,940,685	1,195,152	-	-	1,940,685	1,195,152
Public works	785,239	710,492	-	-	785,239	710,492
Community development	38,778	20,590	-	-	38,778	20,590
Recreation and culture	1,117,339	674,547	-	-	1,117,339	674,547
Interest on long-term debt	35,873	27,643	-	-	35,873	27,643
Sewer	-	-	1,173,894	1,038,261	1,173,894	1,038,261
Water	-	-	660,742	657,720	660,742	657,720
Total expenses	4,808,013	3,339,137	1,834,636	1,695,981	6,642,649	5,035,118
Change in net position	(890,375)	1,026,692	210,398	1,546,114	(679,977)	2,572,806
Change in accounting principle	-	(2,306,754)	-	(416,686)	-	(2,723,440)
Net position-beginning	8,608,699	9,888,761	6,863,442	5,734,014	15,472,141	15,622,775
Net position-ending	\$7,718,324	\$8,608,699	\$ 7,073,840	\$ 6,863,442	\$14,792,164	\$15,472,141

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City of Clare

Management's Discussion and Analysis

June 30, 2016

Governmental Activities. During the current year, net position for governmental activities decreased \$890,375 from the prior year for an ending balance of \$7,718,324. This decrease was primarily attributable to the changes in the components of the net pension liability.

Business-Type Activities. During the current year, net position for business-type activities increased \$210,398 from the prior year for an ending balance of \$7,073,840. The current year increase was lower than the corresponding increase from the prior year due to a reduction in the amount of capital grants in the current year as compared to the prior year plus changes related to the net pension liability.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Commission.

At June 30, 2016, the City's governmental funds reported combined fund balances of \$1,330,629, a decrease of \$49,511 in comparison with the prior year. Approximately 10% of this amount constitutes unassigned fund balance of \$137,202, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$75,088), 2) legally required to be maintained intact (\$463,942), 3) restricted for particular purposes (\$231,655), or 4) assigned for particular purposes (\$422,742).

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$137,202, while total fund balance decreased to \$820,196. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 3% of total General Fund expenditures, while total fund balance represents approximately 19% of that same amount.

The fund balance of the City's General Fund decreased by \$48,084 during the current year. This decrease was due primarily to increases in capital outlay and public safety donations were greater than the increase in revenue. Overall revenues increased \$223,896 and expenditures increased by \$784,456 compared to the prior year

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City of Clare

Management's Discussion and Analysis

June 30, 2016

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Sewer Fund at the end of the year was \$475,539 and for the Water Fund was \$330,677. The total decrease in net position for the Sewer Fund was \$80,857; while the Water Fund's net position increased \$482,108. As noted earlier in the discussion of business-type activities, the change in net position for the Sewer Fund and Water Fund results from increased capital grants and contributions.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. During the year there was no need for any significant amendments to increase the original estimated revenues, appropriations, or other financing sources or uses.

Final Budget Compared to Actual Results. The most significant differences between estimated revenues and actual revenues were in the categories of state revenue, donations and contributions, and proceeds from sale of assets due to timing of grant funding and donations received for various projects. The most significant differences between estimated expenditures and actual expenditures were in the following categories: police department, fire department, street lights, parks and recreation, airport, and capital outlay and resulted from efforts to keep staffing levels reasonable based on needs and the timing and completion of projects.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$22,378,872 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and the sewer and water systems. The total increase in capital assets for the current fiscal year was approximately 8%.

City of Clare's Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,361,399	\$ 4,361,399	\$ 53,389	\$ 53,389	\$ 4,414,788	\$ 4,414,788
Land improvements	3,273,986	1,673,067	34,928	36,794	3,308,914	1,709,861
Buildings	1,681,420	1,771,368	1,669,156	1,783,383	3,350,576	3,554,751
Equipment	463,738	347,283	1,245,945	1,302,544	1,709,683	1,649,827
Vehicles	1,173,749	545,951	-	-	1,173,749	545,951
System	-	-	7,222,242	3,374,693	7,222,242	3,374,693
Construction in progress	1,198,920	2,239,473	-	3,278,724	1,198,920	5,518,197
	\$12,153,212	\$10,938,541	\$ 10,225,660	\$ 9,829,527	\$22,378,872	\$20,768,068

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City of Clare

Management's Discussion and Analysis

June 30, 2016

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,090,954. Of this amount, the full amount of \$5,090,954 is debt backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises installment purchase contracts.

City of Clare's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$1,130,000	\$951,993	\$1,248,000	\$1,309,000	\$ 2,378,000	\$ 2,260,993
Revenue bonds	-	-	2,434,954	2,477,954	2,434,954	2,477,954
Special assessment bonds	-	-	-	-	-	-
Installment purchase contracts	844,184	214,813	-	-	844,184	214,813
	\$1,974,184	\$1,166,806	\$3,682,954	\$3,786,954	\$5,657,138	\$4,953,760

The City's total debt increased by \$703,378, or 14%, during the current year. The reason for the increase is due to additional bonded debt incurred related to the fire truck purchase along with sidewalk LED lighting.

Economic Factors and Next Year's Budgets and Rates

Projected revenues and expenditures for 2016-2019 are assumed to increase 2% per year in each category. These assumptions are based upon data accumulated about the history of total ad valorem assessed and taxable values, the consumer price index from 1997-2015, property tax revenues from years 2010-2015, and state revenue sharing (on the State of Michigan's fiscal year) from 2000-2015. In addition, the City has ongoing cost containment efforts in place.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either: Mr. Ken Hibl, City Manager, Email: khibl@cityofclare.org or Mr. Steven J. Kingsbury, MiCPT, City Treasurer, Finance Director, and Director of Information Technology, Email: skingsbury@cityofclare.org.

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City of Clare

Statement of Net Position

June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 297,636	\$ 47,762	\$ 345,398	\$ 45,614
Investments	770,000	530,000	1,300,000	-
Investments held by trustee	200,727	-	200,727	-
Accounts receivable, net	64,764	261,191	325,955	-
Accrued interest receivable	813	559	1,372	-
Assessments receivable, net	37,381	12,914	50,295	-
Internal balances	(235,488)	235,488	-	-
Due from other governmental units	204,840	-	204,840	-
Inventory	40,918	52,473	93,391	-
Prepaid items	72,970	21,969	94,939	-
Restricted cash and cash equivalents	-	115,796	115,796	-
Capital assets, net:				
Assets not being depreciated	5,560,319	53,389	5,613,708	108,126
Assets being depreciated	6,592,893	10,172,271	16,765,164	306,050
Total assets	13,607,773	11,503,812	25,111,585	459,790
Deferred outflows of resources	(232,313)	(39,716)	(272,029)	
Liabilities				
Accounts payable	64,053	71,538	135,591	4,880
Accrued liabilities	53,507	13,379	66,886	-
Accrued interest payable	26,073	16,635	42,708	2,024
Due to other governmental units	21,998	-	21,998	-
Deposits and other liabilities	1,000	19,100	20,100	-
Unearned revenue	84,819	-	84,819	-
Long-term debt:				
Due in one year	109,822	110,000	219,822	25,000
Due in more than one year	1,864,362	3,572,954	5,437,316	253,000
Net pension liability	3,431,502	586,650	4,018,152	-
Total liabilities	5,657,136	4,390,256	10,047,392	284,904
Net position				
Invested in capital assets, net of related debt	10,179,028	6,542,706	16,721,734	136,176
Restricted for:				
Landfill postclosure care	200,727	-	200,727	-
Cemetery perpetual care	263,215	-	263,215	-
Streets and highways	231,655	-	231,655	-
Debt service	-	115,796	115,796	34,119
Community development	-	-	-	4,591
Unrestricted	(3,156,301)	415,338	(2,740,963)	-
Total net position	\$ 7,718,324	\$ 7,073,840	\$ 14,792,164	\$ 174,886

See accompanying notes.

PRELIMINARY

City of Clare

Statement of Activities

Year Ended June 30, 2016

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities:								
General government	\$ 890,099	\$ 167,048	\$ -	\$ -	\$ (723,051)		\$ (723,051)	
Public safety	1,940,685	247,545	5,612	-	(1,687,528)		(1,687,528)	
Public works	785,239	221,428	356,328	25,053	(182,430)		(182,430)	
Community development	38,778	-	-	-	(38,778)		(38,778)	
Recreation and culture	1,117,339	196,418	302,105	415,289	(203,527)		(203,527)	
Interest on long-term debt	35,873	-	-	-	(35,873)		(35,873)	
Total governmental activities	4,808,013	832,439	664,045	440,342	(2,871,187)		(2,871,187)	
Business-type activities:								
Sewer	1,173,894	905,656	-	26,596		\$ (241,642)	(241,642)	
Water	660,742	571,308	128,766	404,418		443,750	443,750	
Total business-type activities	1,834,636	1,476,964	128,766	431,014		202,108	202,108	
Total primary government	\$ 6,642,649	\$ 2,309,403	\$ 792,811	\$ 871,356	(2,871,187)	202,108	(2,669,079)	
Component units:								
Downtown Development Authority	85,581	-	13,624	-				\$ (71,957)
Local Development Finance Authority	4,146	-	-	-				(4,146)
Brownfield Redevelopment Authority	-	-	-	-				-
Total component units	\$ 89,727	\$ -	\$ 13,624	\$ -				(76,103)
General revenues:								
Property taxes and related fees					1,590,097	-	1,590,097	78,724
Grants and contributions not restricted to specific programs					367,635	-	367,635	-
Interest earnings					4,268	1,378	5,646	35
Proceeds from sale of assets					3,385	-	3,385	-
Miscellaneous					15,427	6,912	22,339	200
Total general revenues					1,980,812	8,290	1,989,102	78,959
Change in net position					(890,375)	210,398	(679,977)	2,856
Net position-beginning					8,608,699	6,863,442	15,472,141	172,030
Net position-ending	\$ 7,718,324	\$ 7,073,840	\$ 14,792,164	\$ 174,886				

See accompanying notes.

PRELIMINARY

City of Clare

Governmental Funds Balance Sheet

June 30, 2016

	General	Major Street	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 282,067	\$ (27,995)	\$ 23,787	\$ 277,859
Investments	365,000	85,000	280,000	730,000
Investments held by trustee	200,727	-	-	200,727
Accounts receivable, net	58,113	-	-	58,113
Accrued interest receivable	385	90	295	770
Assessments receivable, net	27,000	6,144	8,237	41,381
Due from other governmental units	62,203	121,674	20,963	204,840
Inventory	6,809	-	-	6,809
Prepaid items	59,545	4,206	4,528	68,279
Total assets	<u>\$ 1,061,849</u>	<u>\$ 189,119</u>	<u>\$ 337,810</u>	<u>\$ 1,588,778</u>
Liabilities, deferred inflows of resources, and fund balances				
Liabilities:				
Accounts payable	\$ 60,372	\$ 1,098	\$ 290	\$ 61,760
Accrued liabilities	46,464	1,874	2,853	51,191
Due to other governmental units	21,998	-	-	21,998
Deposits and other liabilities	1,000	-	-	1,000
Unearned revenue	84,819	-	-	84,819
Total liabilities	<u>214,653</u>	<u>2,972</u>	<u>3,143</u>	<u>220,768</u>
Deferred inflows of resources:				
Unavailable revenue - long-term special assessments	27,000	2,144	8,237	37,381
Total deferred inflows of resources	<u>27,000</u>	<u>2,144</u>	<u>8,237</u>	<u>37,381</u>
Fund balances:				
Nonspendable - inventory	6,809	-	-	6,809
Nonspendable - prepaid items	59,545	4,206	4,528	68,279
Nonspendable - landfill postclosure care	200,727	-	-	200,727
Nonspendable - cemetery perpetual care	-	-	263,215	263,215
Restricted - streets and highways	-	179,797	51,858	231,655
Assigned - fire department	236,688	-	-	236,688
Assigned - sidewalk replacement	3,229	-	-	3,229
Assigned - cemetery	-	-	6,829	6,829
Assigned - subsequent year's budget	175,996	-	-	175,996
Unassigned	137,202	-	-	137,202
Total fund balances	<u>820,196</u>	<u>184,003</u>	<u>326,430</u>	<u>1,330,629</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,061,849</u>	<u>\$ 189,119</u>	<u>\$ 337,810</u>	<u>\$ 1,588,778</u>

PRELIMINARY

City of Clare

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2016

Total fund balances for governmental funds \$ 1,330,629

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Capital assets	14,583,315
Accumulated depreciation	(3,081,713)

Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.

Long-term special assessments receivable	37,381
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Deferred outflows represent financial uses, but are deferred expenses in the government-wide financial statements	(232,313)
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The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	512,784
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Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest payable	(26,073)
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2016 are: Installment purchase contracts General obligation limited tax bonds Net pension liability	(188,588) (1,785,596) <u>(3,431,502)</u>
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Total net position of governmental activities	<u><u>\$ 7,718,324</u></u>
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PRELIMINARY

City of Clare

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

Year Ended June 30, 2016

	General	Major Street	Other Governmental Funds	Total
Revenues				
Property taxes and related fees	\$ 1,590,035	\$ -	\$ 62	\$ 1,590,097
Licenses and permits	25,007	-	-	25,007
Federal grants	415,289	9,303	-	424,592
State grants	372,997	255,930	100,398	729,325
Charges for services	679,292	-	11,050	690,342
Interest earnings	3,071	252	826	4,149
Rents and royalties	76,942	-	-	76,942
Fines and forfeits	5,948	-	2,826	8,774
Special assessments, net	21,366	1,116	5,284	27,766
Donations	304,864	4,000	-	308,864
Proceeds from sale of assets	-	-	-	-
Miscellaneous	15,947	2,394	-	18,341
Total revenues	3,510,758	272,995	120,446	3,904,199
Expenditures				
General government	750,996	-	1,200	752,196
Public safety	1,116,367	-	3,883	1,120,250
Public works	389,163	170,530	172,536	732,229
Community development	38,778	-	-	38,778
Recreation and culture	468,631	-	-	468,631
Capital outlay	1,477,928	96,718	-	1,574,646
Debt service	98,888	-	53,290	152,178
Total expenditures	4,340,751	267,248	230,909	4,838,908
Excess (deficiency) of revenues over expenditures	(829,993)	5,747	(110,463)	(934,709)
Other financing sources (uses)				
Issuance of long-term debt	888,596	-	-	888,596
Transfers in	-	-	142,290	142,290
Transfers out	(106,687)	(36,500)	(2,500)	(145,687)
Total other financing sources (uses)	781,909	(36,500)	139,790	885,199
Net change in fund balances	(48,084)	(30,753)	29,327	(49,510)
Fund balances-beginning	868,280	214,756	297,103	1,380,139
Fund balances-ending	\$ 820,196	\$ 184,003	\$ 326,430	\$ 1,330,629

See accompanying notes.

PRELIMINARY

City of Clare

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ (49,510)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay 1,574,646
Subtract: depreciation expense (295,686)

Revenues in the statement of activities that represent new levies for long-term special assessments and do not affect fund balances. 305

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Subtract: increase in accrued interest payable (11,012)
Subtract: increase in net pension liability net of related deferred outflows (1,328,358)

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Add: repayments of installment purchase contract 109,233
Subtract: bond proceeds (888,596)

The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within governmental activities.

Net operating income (loss) from governmental activities in internal service funds (20,651)
Interest earnings from governmental internal service funds 119
Gain (loss) on sale of capital assets in governmental internal service funds 3,385
Capital contributions from governmental internal service funds 15,750

Change in net position of governmental activities \$ (890,375)

PRELIMINARY

City of Clare

Proprietary Funds Statement of Net Position

June 30, 2016

	Sewer Fund	Water Fund	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 17,454	\$ 30,308	\$ 47,762	\$ 19,777
Investments	330,000	200,000	530,000	40,000
Accounts receivable, net	136,116	125,075	261,191	2,651
Accrued interest receivable	348	211	559	43
Assessments receivable, net	12,207	707	12,914	-
Due from other governments	-	-	-	-
Inventory	45,987	6,486	52,473	34,109
Prepaid items	8,879	13,090	21,969	4,691
Restricted current assets:				
Cash and cash equivalents	103,892	11,904	115,796	-
Total current assets	654,883	387,781	1,042,664	101,271
Noncurrent assets:				
Capital assets:				
Land	10,757	42,632	53,389	85,000
Construction in progress	-	-	-	-
Land improvements, net	34,928	-	34,928	-
Buildings and improvements, net	1,610,161	58,995	1,669,156	213,703
Equipment, net	1,245,787	158	1,245,945	41,561
Vehicles, net	-	-	-	311,346
Sewer and water system infrastructure, net	3,578,644	3,643,598	7,222,242	-
Total noncurrent assets	6,480,277	3,745,383	10,225,660	651,610
Total assets	7,135,160	4,133,164	11,268,324	752,881
Liabilities				
Current liabilities:				
Accounts payable	36,530	35,008	71,538	2,293
Accrued expenses	6,785	6,594	13,379	2,316
Accrued interest payable	13,037	3,598	16,635	-
Deposits and other liabilities	19,100	-	19,100	-
Bonds and contracts payable	78,000	32,000	110,000	-
Total current liabilities	153,452	77,200	230,652	4,609
Noncurrent liabilities:				
Bonds and contracts payable	2,868,954	704,000	3,572,954	-
Total liabilities	3,022,406	781,200	3,803,606	4,609
Net position				
Invested in capital assets, net of related debt	3,533,323	3,009,383	6,542,706	651,610
Restricted for debt service	103,892	11,904	115,796	-
Unrestricted	475,539	330,677	806,216	96,662
Total net position	\$ 4,112,754	\$ 3,351,964	\$ 7,464,718	\$ 748,272

See accompanying notes.

PRELIMINARY

City of Clare

Reconciliation of the Position on the Statement of Net Position for Enterprise Funds to
the Net Position of Business-Type Activities on the Statement of Net Position

June 30, 2016

Net position - total enterprise funds \$ 7,464,718

Total net position reported for business-type activities in the statement of net position is different because:

The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in the business-type activities in the statement of net position. 235,488

Net pension liability and related deferred outflows applicable to the City's business type activities are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. (626,366)

Total net position of business-type activities \$ 7,073,840

PRELIMINARY

City of Clare

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2016

	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating revenues				
Charges for services	\$ 904,763	\$ 571,245	\$ 1,476,008	\$ 445,145
Miscellaneous	2,320	4,592	6,912	804
Total operating revenues	907,083	575,837	1,482,920	445,949
Operating expenses				
Salaries and wages	181,975	174,546	356,521	99,911
Payroll taxes	13,530	12,992	26,522	7,442
Employee benefits	45,416	44,431	89,847	26,907
Retirement	32,436	31,314	63,750	18,596
Supplies	47,347	44,036	91,383	76,547
Postage	1,626	1,626	3,252	-
Professional and contracted services	20,446	22,191	42,637	34,228
Insurance	8,452	3,038	11,490	9,470
Telephone and communications	5,778	14,919	20,697	3,587
Professional development	1,545	2,346	3,891	1,826
Utilities	111,162	67,060	178,222	14,704
Repair and maintenance	46,206	12,135	58,341	67,779
Equipment rental	107,250	79,500	186,750	-
Miscellaneous	6,753	5,230	11,983	689
Depreciation	309,934	89,830	399,764	106,126
Total operating expenses	939,856	605,194	1,545,050	467,812
Operating income (loss)	(32,773)	(29,357)	(62,130)	(21,863)
Nonoperating revenues (expenses)				
Special assessments	893	63	956	-
Interest earnings	999	379	1,378	119
Other revenue	-	128,766	128,766	-
Proceeds from sale of assets	-	-	-	3,385
Interest expense	(76,574)	(22,162)	(98,736)	-
Net nonoperating revenues (expenses)	(74,682)	107,046	32,364	3,504
Income (loss) before capital contributions	(107,455)	77,689	(29,766)	(18,359)
Capital contributions	26,596	404,418	431,014	15,750
Total capital contributions	26,596	404,418	431,014	15,750
Changes in net position	(80,859)	482,107	401,248	(2,609)
Total net position-beginning	4,193,613	2,869,857	7,063,470	750,881
Total net position-ending	\$ 4,112,754	\$ 3,351,964	\$ 7,464,718	\$ 748,272

See accompanying notes.

P R E L I M I N A R Y

City of Clare

Reconciliation of the Statement of Revenues, Expenses, and Changes in Net Position of
Enterprise Funds to the Statement of Activities

Year Ended June 30, 2016

Net change in net position - total enterprise funds	\$ 401,248
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The change in net position reported for business-type activities in the statement of activities is different because:

Certain expenses reported in the statement of activities are not reported as expenditures in the funds.

Subtract: increase in net pension liability net of related deferred outflows	(164,349)
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The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within business-type activities.

(1,212)

Other changes	<u>(25,289)</u>
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Change in net position of business-type activities	<u><u>\$ 210,398</u></u>
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PRELIMINARY

City of Clare

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2016

	Sewer Fund	Water Fund	Total	Internal Service Funds
Cash flows from operating activities				
Receipts from customers	\$ 881,008	\$ 546,216	\$ 1,427,224	\$ 445,495
Payments to suppliers	(402,240)	(481,388)	(883,628)	(196,567)
Payments to employees	(272,256)	(262,471)	(534,727)	(153,668)
Net cash from operating activities	206,512	(197,643)	8,869	95,260
Cash flows from noncapital financing activities				
Other revenue	-	128,766	128,766	-
Net cash from noncapital financing activities	-	128,766	128,766	-
Cash flows from capital and related financing activities				
Purchases and construction of capital assets	(89,511)	(706,383)	(795,894)	(136,093)
Capital contributions	58,940	449,236	508,176	15,750
Proceeds from the sale of capital assets	-	-	-	3,385
Proceeds from special assessments	3,523	417	3,940	-
Principal paid on capital debt	(77,000)	(27,000)	(104,000)	-
Interest paid on capital debt	(76,949)	(22,279)	(99,228)	-
Net cash from capital and related financing activities	(180,997)	(306,009)	(487,006)	(116,958)
Cash flows from investing activities				
Purchases of investments	(30,000)	-	(30,000)	-
Proceeds from the sale of investments	-	350,000	350,000	-
Interest earnings	903	630	1,533	119
Net cash from investing activities	(29,097)	350,630	321,533	119
Net change in cash and cash equivalents	(3,582)	(24,256)	(27,838)	(21,579)
Balances-beginning of year	124,928	66,468	191,396	41,356
Balances-end of year	\$ 121,346	\$ 42,212	\$ 163,558	\$ 19,777
Displayed as:				
Cash and cash equivalents	\$ 17,454	\$ 30,308	\$ 47,762	\$ 19,777
Restricted cash and cash equivalents	103,892	11,904	115,796	-
	\$ 121,346	\$ 42,212	\$ 163,558	\$ 19,777
Reconciliation of operating loss to net cash from operating activities:				
Operating loss	\$ (32,773)	\$ (29,357)	\$ (62,130)	\$ (21,863)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation expense	309,934	89,830	399,764	106,126
Change in assets and liabilities:				
Accounts receivable, net	(26,075)	(29,621)	(55,696)	(454)
Inventory	2,427	853	3,280	9,664
Prepaid items	6,246	119	6,365	11,173
Accounts payable	(56,648)	(230,279)	(286,927)	(8,574)
Accrued expenses	1,101	812	1,913	(812)
Deposits and other liabilities	2,300	-	2,300	-
Net cash from operating activities	\$ 206,512	\$ (197,643)	\$ 8,869	\$ 95,260

See accompanying notes.

PRELIMINARY

City of Clare

Statement of Fiduciary Net Position

June 30, 2016

	<u>Funds</u>
Assets	
Cash and cash equivalents	\$ 37,204
Total assets	<u>\$ 37,204</u>
Liabilities	
Accrued expenses	\$ 31,080
Due to other governmental units	<u>6,124</u>
Total liabilities	<u>\$ 37,204</u>

PRELIMINARY

City of Clare

Component Units Statement of Net Position

June 30, 2016

	Downtown Development Authority	Local Development Finance Authority	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents	\$ 41,023	\$ -	\$ 4,591	\$ 45,614
Accounts receivable	-	-	-	-
Capital assets, net:				
Assets not being depreciated	108,126	-	-	108,126
Assets being depreciated	240,528	65,522	-	306,050
Total assets	<u>389,677</u>	<u>65,522</u>	<u>4,591</u>	<u>459,790</u>
Liabilities				
Accounts payable	4,880	-	-	4,880
Accrued interest payable	2,024	-	-	2,024
Long-term liabilities:				
Due in one year	25,000	-	-	25,000
Due in more than one year	253,000	-	-	253,000
Total liabilities	<u>284,904</u>	<u>-</u>	<u>-</u>	<u>284,904</u>
Net position				
Invested in capital assets, net of related debt	70,654	65,522	-	136,176
Restricted - debt service	34,119	-	-	34,119
Restricted - community development	-	-	4,591	4,591
Total net position	<u>\$ 104,773</u>	<u>\$ 65,522</u>	<u>\$ 4,591</u>	<u>\$ 174,886</u>

PRELIMINARY

City of Clare

Reconciliation of the Component Units Balance Sheet to the Component Units Statement
of Net Position

June 30, 2016

Total fund balances for component units	\$ 40,734
Total net position reported for component units in the statement of net position is different because:	
Capital assets used in the component units' governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Capital assets	796,414
Accumulated depreciation	(382,238)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest payable	(2,024)
Long-term liabilities applicable to the component units' governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2016 are:	
DDA bonds	<u>(278,000)</u>
Total net position of component units	<u><u>\$ 174,886</u></u>

PRELIMINARY

City of Clare

Component Units Statement of Activities

Year Ended June 30, 2016

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating	Capital	Downtown	Local	Brownfield	Total
		Grants and Contributions	Grants and Contributions	Development Authority	Development Finance Authority	Redevelopment Authority	
Downtown Development Authority:							
Community and economic development	\$ 85,581	\$ 13,624	\$ -	\$ (71,957)	\$ -	\$ -	\$ (71,957)
Local Development Finance Authority:							
Community and economic development	4,146	-	-	-	(4,146)	-	(4,146)
Brownfield Redevelopment Authority:							
Community and economic development	-	-	-	-	-	-	-
	\$ 89,727	\$ 13,624	\$ -	(71,957)	(4,146)	-	(76,103)
General revenues:							
Property taxes and related fees				78,724	-	-	78,724
Proceeds from sale of land				-	-	-	-
Interest earnings				32	-	3	35
Miscellaneous				200	-	-	200
Total general revenues				78,956	-	3	78,959
Change in net position				6,999	(4,146)	3	2,856
Net position-beginning				97,774	69,668	4,588	172,030
Net position-ending	\$ 104,773	\$ 65,522	\$ 4,591	\$ 174,886	\$ 174,886	\$ 174,886	\$ 174,886

See accompanying notes.

PRELIMINARY

City of Clare

Reconciliation of the Component Units Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Component Units Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - component units \$ 4,938

The change in net position reported for component units in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: sale of land -
Subtract: depreciation expense (26,247)

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add: decrease in accrued interest payable 164

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Subtract: repayments of DDA bonds 24,000
Change in net position of component units \$ 2,855

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies

The accounting policies of the City of Clare (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City:

A. Description of Government-wide Financial Statements

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. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City is governed by an elected five-member commission. The City provides services to its various residents in many areas, including general government, public safety, public works, recreation and culture, and sewer and water utilities. As required by GAAP, these financial statements present the City and its component units. The component units discussed below are included in the City's reporting entity because they are entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority (DDA) – The 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 twelve members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

Local Development Finance Authority (LDFA) – The LDFA was created to help finance local industrial development projects. The LDFA's governing body, which consists of nine members, is selected by the City Commission. In addition, the LDFA's budget is subject to approval by the City Commission. The LDFA does not issue separate financial statements.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

B. Reporting Entity (continued)

Discretely Presented Component Units (continued)

Brownfield Redevelopment Authority (BRDA) – The BRDA was created to develop and implement brownfield projects. The BRDA’s governing body is selected by the City Commission. The City Commission approves the annual budget of the BRDA. The BRDA does not issue separate financial statements.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental and internal service funds, while business-type activities incorporate data from the City’s enterprise funds. 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.

As discussed earlier, the City has three discretely presented component units. Although all may not be considered to be major component units, they are nevertheless shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and other charges between the City’s water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements (continued)

The City reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Sewer Fund* is used to record the revenues and expenses for the operation of a sewer system.

The *Water Fund* is used to record the revenues and expenses for the operation of a water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as data processing services provided to other departments of the City on a cost reimbursement basis.

Agency Funds account for assets held for other governments and other city funds in an agency capacity, including tax collections and payroll and benefit administration.

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

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

E. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the net pension obligation.

F. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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 governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

F. Measurement Focus and Basis of Accounting (continued)

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

G. Budgetary Information

Budgets and Budgetary Accounting—The City follows the following procedures in establishing the budgetary data reflected in the financial statements.

- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Annual Informational Budget Summaries are prepared for Debt Service Funds, Capital Project Funds, Enterprise Funds, and Internal Service Funds.
- Budgets can be amended during the year by a majority vote of the City Commission. The activity level in the General Fund and the fund level in the Special Revenue Funds are the legal level of control.
- Budgets for the General Fund and Special Revenue Funds are prepared on a modified accrual basis. Also, informational budgets for the Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis, while the Enterprise Fund and Internal Service Fund informational budgets are prepared using the accrual basis of accounting. Both methods are consistent with GAAP.
- Budget appropriations lapse at year-end.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

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

Receivables and Payables—All trade and property tax receivables are shown net of allowance for uncollectible amounts.

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 cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest. The amount has been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government 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.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 30 years
Buildings and improvements	15 to 60 years
Sewer and water systems	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 5 years

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred outflows/inflows of resources—In addition to assets, the statement of financial position 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.

Deferred outflows of resources consist of net outflows related to the City's multiple-employer net pension obligation and totaled \$272,029 as of June 30, 2016. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members. Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

In addition to liabilities, the statement of financial position 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 City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Pensions—For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Municipal Employees Retirement System (MERS) and additions to/deductions from MERS fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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 or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported inclusive of the applicable bond premium or net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Position Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds or donations) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The City's policy is that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category in order to the least restrictive.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies—In the fund financial statements, fund balance is presented in five possible categories:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as creditors, grantors, and higher levels of government), through constitutional provisions, or by enabling legislations.

Committed – amounts which are subject to limitations the City imposes upon itself through official actions made by the City Commission, and that remain binding unless removed in the same manner.

Assigned – amounts neither restricted nor committed for which the City has a stated intended use as established by the City Commission or an official to which the City Commission has delegated the authority to assign amounts for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies (continued)

I. Revenues and Expenditures/Expenses (continued)

Property Taxes—The City property tax is levied each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2015 net taxable valuation of the City totaled \$85,990,706, on which ad valorem taxes levied consisted of 17.5000 mills for City operating purpose and 0.7500 mills for parks. These amounts are recognized in the General Fund (operating and parks) and Local Street Fund (streets) as property taxes and related fees.

Proprietary Funds Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The Sewer and Water funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. 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.

2. Deposits and Investments

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Deposits	Investments	Total
Financial statement caption:			
Primary Government:			
Cash and cash equivalents	\$ 345,398	\$ -	\$ 345,398
Investments	-	1,300,000	1,300,000
Investments held by trustee	200,727	-	200,727
Restricted cash and cash equivalents	115,796	-	115,796
Component Units:			
Cash and cash equivalents	45,614	-	45,614
Fiduciary Funds:			
Cash and cash equivalents	37,204	-	37,204
	<u>\$ 744,739</u>	<u>\$ 1,300,000</u>	<u>\$ 2,574,687</u>

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

2. Deposits and Investments (continued)

Under its investment policy, the City restricts its investments to bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States. The City Commission has authorized the following financial institutions as depositories for the City: Chemical Bank-Clare and Mercantile Bank.

As of June 30, 2016, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
Repurchase agreements	\$ 1,300,000	<1 year

Investment and Deposit Risk

Interest Rate Risk—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity.

Credit Risk—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's current investment policy does specify a credit risk rating to be maintained. The City's investments are backed by U.S. governmental securities, which are rated AA+ and Aaa by Standard & Poors and Moody's Investor Services, respectively.

Custodial Credit Risk – Deposits—Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$234,931 of the City's bank balances of \$558,279 were exposed to custodial credit risk because they were uninsured and uncollateralized.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

2. Deposits and Investments (continued)

Investment and Deposit Risk (continued)

Custodial Credit Risk – Investments–For an investment, 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. State law does not require, and the City does not have, a policy for investment custodial credit risk. The City’s funds are not exposed to custodial credit risk because they are repurchase agreements with an agency of the United States government as the underlying issuer.

Concentration of Credit Risk–The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The City’s investments include \$1,300,000 of repurchase agreements with Chemical Bank.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

3. Capital Assets

Capital asset activity of the primary government for the current period was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,361,399	\$ -	\$ -	\$ 4,361,399
Construction in progress	2,239,473	-	(1,040,553)	1,198,920
Total capital assets not being depreciated	6,600,872	-	(1,040,553)	5,560,319
Capital assets being depreciated:				
Land improvements	2,025,228	1,706,662	-	3,731,890
Buildings and improvements	3,243,167	-	-	3,243,167
Equipment	1,903,494	175,064	(4,439)	2,074,119
Vehicles	2,198,765	775,309	(12,864)	2,961,210
Total capital assets being depreciated	9,370,654	2,657,035	(17,303)	12,010,386
Less accumulated depreciation:				
Land improvements	(352,161)	(105,743)	-	(457,904)
Buildings and improvements	(1,471,799)	(89,948)	-	(1,561,747)
Equipment	(1,556,211)	(58,609)	4,439	(1,610,381)
Vehicles	(1,652,813)	(147,512)	12,864	(1,787,461)
Total accumulated depreciation	(5,032,984)	(401,812)	17,303	(5,417,493)
Total capital assets being depreciated, net	4,337,670	2,255,223	-	6,592,893
Governmental activities capital assets, net	\$10,938,542	\$2,255,223	\$ (1,040,553)	\$12,153,212

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

3. Capital Assets (continued)

Business-type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Construction in progress	3,278,724	-	(3,278,724)	-
Total capital assets not being depreciated	3,332,113	-	(3,278,724)	53,389
Capital assets being depreciated:				
Land improvements	412,516	-	-	412,516
Buildings and improvements	5,381,199	-	-	5,381,199
Equipment	1,888,737	-	-	1,888,737
Infrastructure	7,573,489	4,074,622	-	11,648,111
Total capital assets being depreciated	15,255,941	4,074,622	-	19,330,563
Less accumulated depreciation:				
Land improvements	(375,722)	(1,866)	-	(377,588)
Buildings and improvements	(3,597,816)	(114,227)	-	(3,712,043)
Equipment	(586,193)	(56,599)	-	(642,792)
Infrastructure	(4,198,796)	(227,073)	-	(4,425,869)
Total accumulated depreciation	(8,758,527)	(399,765)	-	(9,158,292)
Total capital assets being depreciated, net	6,497,414	3,674,857	-	10,172,271
Business-type activities capital assets, net	\$ 9,829,527	\$3,674,857	\$ (3,278,724)	\$10,225,660

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

3. Capital Assets (continued)

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General government	\$ 76,261
Public safety	127,634
Public works	21,966
Recreation and culture	69,825
Internal Service Fund depreciation	106,126
	<u>\$ 401,812</u>
 Business-Type Activities	
Sewer	\$ 309,934
Water	89,830
	<u>\$ 399,794</u>

Discretely Presented Component Units

Activity for the DDA for the current period was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 108,126	\$ -	\$ -	\$ 108,126
Total capital assets not being depreciated	108,126	-	-	108,126
 Capital assets being depreciated:				
Land improvements	456,072	-	-	456,072
Equipment	138,200	-	-	138,200
Total capital assets being depreciated	594,272	-	-	594,272
 Less accumulated depreciation:				
Land improvements	(193,444)	(22,100)	-	(215,544)
Equipment	(138,200)	-	-	(138,200)
Total accumulated depreciation	(331,644)	(22,100)	-	(353,744)
 Total capital assets being depreciated, net	262,628	(22,100)	-	240,528
 DDA capital assets, net	<u>\$ 370,754</u>	<u>\$ (22,100)</u>	<u>\$ -</u>	<u>\$ 348,654</u>

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

3. Capital Assets (continued)

Activity for the LDFA for the current period was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Land improvements	\$ 94,016	\$ -	\$ -	\$ 94,016
Total capital assets being depreciated	94,016	-	-	94,016
Less accumulated depreciation:				
Land improvements	(24,348)	(4,146)	-	(28,494)
Total accumulated depreciation	(24,348)	(4,146)	-	(28,494)
LDFA capital assets, net	\$ 69,668	\$ (4,146)	\$ -	\$ 65,522

Construction Commitments

The City's active construction projects at June 30, 2016 included the following contractor commitments:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Airport – Parallel Taxiway	\$ 538,086	\$ 45,024
Soccer Complex Project	22,161	48,270
	<u>\$ 560,247</u>	<u>\$ 93,294</u>

4. Interfund Receivables, Payables, and Transfers

As of June 30, 2016, there were no interfund receivables or payables between the funds. The composition of interfund transfers out and in is as follows:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 119,687	Local Street	\$ 102,897
Major Street	36,500	Public Safety	53,290
	<u>\$ 156,187</u>		<u>\$ 156,187</u>

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

4. Interfund Receivables, Payables, and Transfers (continued)

Transfers represent unrestricted revenues used to finance programs that the City must account for in specific funds in accordance with budgetary authorizations, amounts provided as subsidies, or matching funds for specific grant programs.

5. Long-Term Debt

The government 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 government. 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 that directly 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 government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual agreements can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Public safety building – 2012 refunding bonds	3.37%	2035	\$ 620,000	\$ (35,000)	\$ 585,000	\$35,000
Railroad depot installment purchase	4.00%	2022	75,712	(10,408)	65,304	10,833
Soccer complex installment purchase	2.69%	2023	139,101	(15,816)	123,285	16,241
North Industrial Park	4.00%	2044	331,993	223,000	545,000	11,000
Fire truck purchase	3.09%	2030	-	525,000	525,000	28,042
Sidewalk LED lighting	2.24%	2031	-	130,596	130,596	8,706
			<u>\$1,166,806</u>	<u>\$ 817,372</u>	<u>\$1,974,184</u>	<u>\$109,822</u>
Business-Type Activities						
Sewage system revenue bonds	2.50%	2051	2,477,954	\$ (43,000)	\$2,434,954	\$44,000
Water – 2012 refunding bonds	2.23%	2023	210,000	(20,000)	190,000	25,000
Sewer – 2012 refunding bonds	2.15%	2023	215,000	(30,000)	185,000	30,000
Water – 2014 rural development bonds	3.25%	2054	553,000	(7,000)	546,000	7,000
Sewer – 2014 rural development bonds	3.25%	2054	331,000	(4,000)	327,000	4,000
			<u>\$3,786,954</u>	<u>\$ (104,000)</u>	<u>\$3,682,954</u>	<u>\$110,000</u>
Component Units						
2006 DDA bonds	3.95 to 4.55%	2025	\$ 302,000	\$ (24,000)	\$ 278,000	\$25,000
			<u>\$ 302,000</u>	<u>\$ (24,000)</u>	<u>\$ 278,000</u>	<u>\$25,000</u>

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City of Clare

Notes to Financial Statements

June 30, 2016

5. Long-Term Debt (continued)

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

Year Ending June 30,	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 109,822	\$ 62,840	\$ 110,000	\$ 97,400	\$ 25,000	\$ 11,625
2018	106,567	61,427	113,000	95,035	26,000	10,560
2019	114,368	58,353	110,000	92,469	27,000	9,440
2020	116,227	55,057	116,000	89,726	29,000	8,243
2021	119,147	51,649	112,000	86,885	30,000	6,697
2022-2026	477,324	210,611	448,000	394,178	141,000	9,985
2027-2031	472,729	138,337	388,000	343,547	-	-
2032-2036	236,000	68,399	441,000	289,018	-	-
2037-2041	130,000	34,400	506,000	226,618	-	-
2042-2046	92,000	7,520	578,000	154,932	-	-
2047-2051	-	-	643,954	73,101	-	-
2052-2055	-	-	117,000	7,768	-	-
	<u>\$ 1,974,184</u>	<u>\$ 748,593</u>	<u>\$ 3,682,954</u>	<u>\$ 1,950,677</u>	<u>\$ 278,000</u>	<u>\$ 56,550</u>

6. Segment Information—Enterprise Funds

The City issued revenue bonds to finance certain improvements to its sewer and water systems. Because the Sewer and Water funds are individual major funds that account entirely for the City's sewage treatment activities and water distribution, segment disclosures herein are not required.

7. Risk Management

The City participates in a public entity risk (insurance) pool with other local units of government in the Michigan Municipal Liability and Property Pool. This self insurance plan provides members with loss protection for property damage and general liability.

The City paid the annual premium for this insurance policy after June 30, 2016.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

7. Risk Management (continued)

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the plan are available.

8. Deferred Compensation Plan

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plan were held in trust as described in Internal Revenue Code Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of the plan's investment activity for the year ended June 30, 2016, follows:

Balance – July 1, 2015	\$ 515,642
Employee contributions	31,263
Transfers	17
Current withdrawals	(40,909)
Interest and market losses	(9,115)
Adjustments/fees	(3,602)
Balance – June 30, 2016	<u>\$ 493,296</u>

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City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan

Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple- employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com. The employees included in this plan are the Police and Administrative Office personnel.

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's contribution rate during the 2015 calendar valuation period was 25.02% of annual covered payroll for general employees and 12% of annual covered payroll for police employees. The City's contributions to the plan for the year ended June 30, 2016 were \$228,271 which equaled the City's required contribution.

The City may establish contribution rates to be paid by its covered employees. General employees are required to contribute 4% of their annual covered payroll; police employees contribute 19.92%. Employee contributions for the year ended June 30, 2016 were \$108,901.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan (continued)

Defined Benefit Pension Plan (continued)

Benefit Provisions. The chart below summarizes the benefit provisions for each of the City's two covered groups.

<u>01 – General: Open Division</u>	<u>2015 Valuation</u>
Benefit Multiplier	2.25% Multiplier (80% max)
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	3 years
COLA for Future Retirees	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)
Employee Contributions	4%
Act 88	Yes (Adopted 6/6/2005)
<u>02 – Police: Open Division</u>	<u>2015 Valuation</u>
Benefit Multiplier	2.50% Multiplier (80% max)
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	50/25
Early Retirement (Reduced)	55/15
Final Average Compensation	3 years
Employee Contributions	19.92%
Act 88	Yes (Adopted 6/6/2005)

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City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan (continued)

Defined Benefit Pension Plan (continued)

Employees covered by benefit terms. As of the December 31 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>28</u>
	<u>59</u>

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

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

- Inflation: 3% - 4%
- Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
- Increase in final average compensation: 1%
- Average expected remaining service lives of all employees (active and inactive): 5
- Investment rate of return: 8.0%, net of investment expense, including inflation.
- Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

9. Detailed Notes on All Activities and Funds (continued)

Defined Benefit Pension Plan (continued)

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay 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.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan (continued)

Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at December 31, 2014	\$8,048,814	\$5,118,275	\$2,930,539
Changes for the year			
Service Cost	158,301	-	158,301
Interest on total pension liability	628,374	-	628,374
Changes in benefits	(12,417)	-	(12,417)
Difference between expected and actual experience	(143,831)	-	(143,831)
Changes in assumptions	394,907	-	394,907
Employer contributions		221,449	(221,449)
Employee contributions		94,551	(94,551)
Net investment income		(75,565)	75,565
Benefit payments, including employee refunds	(546,575)	(546,575)	-
Administrative expense		(11,047)	11,047
Other changes	19,637	1	19,637
Net changes	498,396	(317,188)	815,584
Balances as of December 31, 2015	\$8,547,210	\$4,801,087	\$3,746,123

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan (continued)

Defined Benefit Pension Plan (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net pension liability	\$4,786,621	3,746,123	\$2,877,494

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

For the year ended June 30, 2016 the employer recognized pension expense of \$387,333. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 395,946	\$ -
Differences in assumptions	78,981	-
Excess (Deficit) Investment Returns	(97,571)	
Contributions subsequent to the measurement date*	111,592	-
Total	\$ 464,543	\$ -

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2016.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

9. Pension Plan (continued)

Defined Benefit Pension Plan (continued)

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

Year Ended June 30	
2016	\$ 89,232
2017	89,232
2018	89,232
2019	107,614
Thereafter	-
	<hr/> \$ 464,543 <hr/>

Funding Policy—The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 26 years.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PRELIMINARY

City of Clare

Notes to Financial Statements

June 30, 2016

10. Contingencies

The City receives financial assistance from other governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

The City is subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.

11. Landfill Post-Closure Care

The City owns and operated the Hatton Township Landfill (landfill), which was closed in 1987. Following closure, the landfill was capped. However, there have been claims of contamination from the landfill infiltrating local aquifers and contaminating local private wells.

The City hired a technical consultant to develop an assessment plan to determine the levels of alleged migratory contamination. The Michigan Department of Environmental Quality (DEQ) disagreed with the scope and extent of the City consultant's assessment and assumed the role of performing this assessment in 2000. The DEQ completed its assessment plan in 2003 and found no migratory contamination.

The City has contributed \$200,000 to be held in perpetuity in a designated and agreed-upon, third-party escrow account to defray any future costs and litigation ensuing from contamination caused by the landfill.

The landfill is no longer accepting solid waste. Any liability related to any other costs, which may possibly be incurred, cannot be estimated at this time, and no estimated liability has been recorded.

PRELIMINARY

City of Clare, Michigan Required Supplementary Information Defined Benefit Pension Plan (MERS)

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability								
Service Cost	\$ 158,301	\$ 154,504						
Interest	628,374	607,608						
Changes of benefit terms	(12,417)	-						
Difference between expected and actual experience	(143,831)	-						
Changes of assumptions	394,907	-						
Benefit payments including employee refunds	(546,575)	(500,277)						
Other	19,637	18,988						
Net change in total pension liability	498,396	280,823						
Total pension liability, beginning	8,048,814	7,767,991						
Total pension liability, ending	\$ 8,547,210	\$ 8,048,814	\$ 7,883,371	\$ 7,880,941	\$ 7,497,994	\$ 7,159,959	\$ 6,932,072	\$ 6,593,718
Plan fiduciary net position								
Contributions-employer	\$ 221,449	\$ 200,646						
Contributions-employee	94,551	75,078						
Net Investment income	(75,565)	314,166						
Benefit payments including employee refunds	(546,575)	(500,277)						
Administrative expense and other changes	(11,048)	(11,501)						
Net change in plan fiduciary net position	(317,188)	78,112						
Plan fiduciary net position, beginning	5,118,275	5,040,163						
Plan fiduciary net position, ending	\$ 4,801,087	\$ 5,118,275	\$ 5,351,846	\$ 5,194,914	\$ 5,106,348	\$ 4,979,097	\$ 4,834,944	\$ 4,711,155
Employer net pension liability	\$ 3,746,123	\$ 2,930,539	\$ 2,531,525	\$ 2,686,027	\$ 2,391,646	\$ 2,180,862	\$ 2,097,128	\$ 1,882,563
Plan fiduciary net position as a percentage of the total pension liability	56.2%	63.6%	67.9%	65.9%	68.1%	69.5%	69.7%	71.4%
Covered employee payroll	\$ 1,257,889	\$ 1,238,862	\$ 1,164,366	\$ 1,252,982	\$ 1,214,372	\$ 1,168,257	\$ 1,198,526	\$ 1,053,985
Employer's net pension liability as a percentage of covered employee payroll	297.8%	236.6%	217.4%	214.4%	196.9%	186.7%	175.0%	178.6%

Notes to schedule:

Benefit changes: There were no changes in benefits during the periods presented.

Changes in assumptions: There were no changes in actuarial assumptions or methods for 2014.

The information above is based on the December 31 valuation date.

These totals and ratios for years 2008 through 2013 are shown for comparative purposes and reflect the actuarial accrued liability, actuarial value of assets, unfunded actuarial accrued liability, and covered payroll as reported in previous years' financial statements.

PRELIMINARY

City of Clare, Michigan

Required Supplementary Information Defined Benefit Pension Plan (MERS) Schedule of Employer's Contributions

	2015	2014	2013	2012	2011	2010
Actuarial determined contributions	\$ 206,244	\$ 201,182	\$ 203,749	\$ 220,462	\$ 214,241	\$ 200,436
Contributions in relation to the actuarially determined contribution	206,244	201,182	203,749	220,462	214,241	200,436
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
 Covered Employee Payroll	 \$ 1,238,862	 \$ 1,164,366	 \$ 1,252,982	 \$ 1,214,372	 \$ 1,168,257	 \$ 1,198,526
 Contributions as a percentage of covered employee payroll	 17%	 17%	 16%	 18%	 18%	 17%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

Above dates are based on the actuarial measurement date

PRELIMINARY

City of Clare

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 1,586,681	\$ 1,586,681	\$ 1,590,035	\$ 3,354
Licenses and permits	26,000	26,000	25,007	(993)
Federal revenue	448,931	448,931	415,289	(33,642)
State revenue	323,115	323,115	372,997	49,882
Charges for services	616,492	682,742	679,292	(3,450)
Interest earnings	2,501	2,501	3,071	570
Rents and royalties	69,696	69,696	76,942	7,246
Fines and forfeitures	4,100	4,100	5,948	1,848
Special assessments, net	21,340	21,340	21,366	26
Donations and contributions	11,000	11,000	304,864	293,864
Miscellaneous	2,500	2,500	15,947	13,447
Total revenues	3,112,356	3,178,606	3,510,758	332,152
Expenditures				
General government:				
City commission	43,350	36,500	35,463	1,037
City manager	113,373	114,973	114,133	840
Assessor	39,100	88,660	86,732	1,928
Clerk	148,397	148,047	145,236	2,811
Elections	7,596	7,096	6,856	240
Board of review	1,594	1,894	1,810	84
Cemetery	59,867	72,667	68,274	4,393
Buildings and grounds	62,792	50,392	48,267	2,125
Fiscal services	130,473	138,818	137,022	1,796
All other general government	49,910	107,729	107,203	526
Public safety:				
Police department	906,710	907,210	895,425	11,785
Fire department	242,575	242,575	181,216	61,359
Building inspection and regulation activities	31,850	40,350	39,726	624
Public works:				
Solid waste	218,295	215,221	213,328	1,893
Sidewalk replacement	2,036	2,036	1,197	839
Landfill closure	51,108	57,458	55,917	1,541
Department of public works	46,682	66,032	65,034	998
Drains	2,500	-	-	-
Street lights	53,655	54,525	53,687	838
Community development:				
Planning and zoning	36,300	39,989	38,778	1,211

PRELIMINARY

City of Clare

Budgetary Comparison Schedule - General Fund (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Recreation and culture:				
Parks and recreation	\$ 286,174	\$ 292,724	\$ 285,869	\$ 6,855
Airport	148,755	188,205	182,762	5,443
Capital outlay:				
General government	414,226	409,226	61,406	347,820
Public safety	695,100	695,100	692,452	2,648
Public works	-	145,370	145,370	-
Recreation and culture	608,450	606,450	578,700	27,750
Debt service:				
Principal	36,225	74,233	74,233	-
Interest and fiscal charges	34,625	30,499	24,655	5,844
Total expenditures	<u>4,471,718</u>	<u>4,833,979</u>	<u>4,340,751</u>	<u>493,228</u>
Excess (deficiency) of revenues over expenditures	<u>(1,359,362)</u>	<u>(1,655,373)</u>	<u>(829,993)</u>	<u>825,380</u>
Other financing sources (uses)				
Issuance of long-term debt	750,000	750,000	888,596	138,596
Transfers in (out)	(134,290)	(117,094)	(106,687)	10,407
Total other financing sources (uses)	<u>615,710</u>	<u>632,906</u>	<u>781,909</u>	<u>149,003</u>
Net change in fund balances	(743,652)	(1,022,467)	(48,084)	974,383
Fund balances-beginning	868,280	868,280	868,280	-
Fund balances-ending	<u>\$ 124,628</u>	<u>\$ (154,187)</u>	<u>\$ 820,196</u>	<u>\$ 974,383</u>

PRELIMINARY

City of Clare

Budgetary Comparison Schedule - Major Street

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Federal revenue	-	-	9,303	9,303
State revenue	181,675	244,175	255,930	11,755
Interest earnings	90	90	252	162
Special assessments, net	1,116	1,116	1,116	-
Donations and contributions	-	-	4,000	4,000
Miscellaneous	-	-	2,394	2,394
Total revenues	182,881	245,381	272,995	27,614
Expenditures				
Public works:				
Wages	49,081	54,306	53,524	782
Payroll taxes	3,755	4,255	3,929	326
Fringe benefits	12,826	13,626	12,027	1,599
Retirement	9,642	10,442	10,304	138
Internal service fund - mobile	54,400	59,400	50,250	9,150
Operating supplies	10,600	8,300	4,372	3,928
Road salt	15,500	15,265	13,016	2,249
Professional and contractual services	2,200	22,300	22,930	(630)
Electricity	500	500	178	322
Professional services - trees	2,500	2,500	-	2,500
Miscellaneous	100	100	-	100
Capital Outlay	-	96,728	96,718	10
Total expenditures	161,104	287,722	267,248	20,474
Excess (deficiency) of revenues over expenditures	21,777	(42,341)	5,747	48,088
Other financing sources (uses)				
Transfers out	(40,000)	(40,000)	(36,500)	3,500
Total other financing sources (uses)	(40,000)	(40,000)	(36,500)	3,500
Net change in fund balances	(18,223)	(82,341)	(30,753)	51,588
Fund balances-beginning	214,756	214,756	214,756	-
Fund balances-ending	\$ 196,533	\$ 132,415	\$ 184,003	\$ 51,588

PRELIMINARY

City of Clare

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2016

	Special Revenue		Debt Service		Permanent Cemetery		Total
	Local Street	Drug Forfeiture	Public Safety	-	Perpetual Care	-	
Assets							
Cash and cash equivalents	\$ 14,009	\$ 8	\$ -	\$ -	\$ 9,770	\$ -	\$ 23,787
Investments	20,000	-	-	-	260,000	-	280,000
Accrued interest receivable	21	-	-	-	274	-	295
Assessments receivable, net	8,237	-	-	-	-	-	8,237
Due from other governmental units	20,963	-	-	-	-	-	20,963
Prepaid items	4,528	-	-	-	-	-	4,528
Total assets	\$ 67,758	\$ 8	\$ -	\$ -	\$ 270,044	\$ -	\$ 337,810
Liabilities, deferred inflows of resources, and fund balances							
Liabilities:							
Accounts payable	\$ 290	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290
Accrued liabilities	2,853	-	-	-	-	-	2,853
Total liabilities	3,143	-	-	-	-	-	3,143
Deferred inflows of resources:							
Unavailable revenue - long-term special assessments	8,237	-	-	-	-	-	8,237
Total deferred inflows of resources	8,237	-	-	-	-	-	8,237
Fund balances:							
Nonspendable - prepaid items	4,528	-	-	-	-	-	4,528
Nonspendable - cemetery perpetual care	-	-	-	-	263,215	-	263,215
Restricted - streets and highways	51,850	8	-	-	-	-	51,858
Assigned - cemetery	-	-	-	-	6,829	-	6,829
Total fund balances	56,378	8	-	-	270,044	-	326,430
Total liabilities, deferred inflows of resources, and fund balances	\$ 67,758	\$ 8	\$ -	\$ -	\$ 270,044	\$ -	\$ 337,810

PRELIMINARY

City of Clare

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2016

	Special Revenue		Debt Service	Permanent Cemetery	Total
	Local Street	Drug Forfeiture	Public Safety	Perpetual Care	
Revenues					
Property taxes and related fees	\$ 62	\$ -	\$ -	\$ -	\$ 62
Federal revenue	-	-	-	-	-
State revenue	100,398	-	-	-	100,398
Charges for services	-	-	-	11,050	11,050
Interest earnings	63	1	-	762	826
Fines and forfeitures	-	2,826	-	-	2,826
Special assessments, net	5,284	-	-	-	5,284
Donations	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	105,807	2,827	-	11,812	120,446
Expenditures					
General government	-	-	-	1,200	1,200
Public safety	-	3,883	-	-	3,883
Public works	172,536	-	-	-	172,536
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	35,000	-	35,000
Interest and fiscal charges	-	-	18,290	-	18,290
Total expenditures	172,536	3,883	53,290	1,200	230,909
Excess (deficiency) of revenues over expenditures	(66,729)	(1,056)	(53,290)	10,612	(110,463)
Other financing sources (uses)					
Transfers in	89,000	-	53,290	-	142,290
Transfers out	-	-	-	(2,500)	(2,500)
Total other financing sources (uses)	89,000	-	53,290	(2,500)	139,790
Net change in fund balances	22,271	(1,056)	-	8,112	29,327
Fund balances-beginning	34,107	1,064	-	261,932	297,103
Fund balances-ending	\$ 56,378	\$ 8	\$ -	\$ 270,044	\$ 326,430

PRELIMINARY

City of Clare

Combining Statement of Net Position - Internal Service Funds

June 30, 2016

	Data	Mobile	
	Processing	Equipment	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 7,490	\$ 12,287	\$ 19,777
Investments	10,000	30,000	40,000
Accounts receivable, net	-	2,651	2,651
Accrued interest receivable	11	32	43
Inventory	-	34,109	34,109
Prepaid items	-	4,691	4,691
Total current assets	<u>17,501</u>	<u>83,770</u>	<u>101,271</u>
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	213,703	213,703
Equipment, net	36,155	5,406	41,561
Vehicles, net	-	311,346	311,346
Total noncurrent assets	<u>36,155</u>	<u>615,455</u>	<u>651,610</u>
Total assets	<u><u>53,656</u></u>	<u><u>699,225</u></u>	<u><u>752,881</u></u>
Liabilities			
Current liabilities:			
Accounts payable	324	1,969	2,293
Accrued expenses	-	2,316	2,316
Total current liabilities	<u>324</u>	<u>4,285</u>	<u>4,609</u>
Total liabilities	324	4,285	4,609
Net position			
Invested in capital assets	36,155	615,455	651,610
Unrestricted	17,177	79,485	96,662
Total net position	<u><u>\$ 53,332</u></u>	<u><u>\$ 694,940</u></u>	<u><u>\$ 748,272</u></u>

PRELIMINARY

City of Clare

Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal
Service Funds

Year Ended June 30, 2016

	Data	Mobile	
	Processing	Equipment	Total
Operating revenues			
Charges for services	\$ 83,900	\$ 361,245	\$ 445,145
Miscellaneous	-	804	804
Total operating revenues	<u>83,900</u>	<u>362,049</u>	<u>445,949</u>
Operating expenses			
Salaries and wages	29,008	70,903	99,911
Payroll taxes	2,214	5,228	7,442
Employee benefits	11,679	15,228	26,907
Retirement	4,613	13,983	18,596
Supplies	8,469	68,078	76,547
Professional and contracted services	26,878	7,350	34,228
Insurance	812	8,658	9,470
Telephone and communications	-	3,587	3,587
Professional development	-	1,826	1,826
Utilities	-	14,704	14,704
Repair and maintenance	2,238	65,541	67,779
Miscellaneous	-	689	689
Depreciation	9,789	96,337	106,126
Total operating expenses	<u>95,700</u>	<u>372,112</u>	<u>467,812</u>
Operating income (loss)	(11,800)	(10,063)	(21,863)
Nonoperating revenues (expenses)			
Interest earnings	24	95	119
Gain on sale of assets	-	3,385	3,385
Total nonoperating revenues (expenses)	<u>24</u>	<u>3,480</u>	<u>3,504</u>
Income (loss) before capital contributions	(11,776)	(6,583)	(18,359)
Capital contributions	-	15,750	15,750
Total capital contributions	<u>-</u>	<u>15,750</u>	<u>15,750</u>
Changes in net position	(11,776)	9,167	(2,609)
Total net position-beginning	65,108	685,773	750,881
Total net position-ending	<u>\$ 53,332</u>	<u>\$ 694,940</u>	<u>\$ 748,272</u>

PRELIMINARY

City of Clare

Combining Statement of Cash Flows - Internal Service Funds

Year Ended June 30, 2016

	Data	Mobile	
	Processing	Equipment	Total
Cash flows from operating activities			
Receipts from customers	\$ 83,900	\$ 361,595	\$ 445,495
Payments to suppliers	(38,352)	(158,215)	(196,567)
Payments to employees	(48,457)	(105,211)	(153,668)
Net cash from operating activities	(2,909)	98,169	95,260
Cash flows from noncapital financing activities			
Other revenue	-	-	-
Net cash from noncapital financing activities	-	-	-
Cash flows from capital and related financing activities			
Purchases and construction of capital assets	(10,010)	(126,083)	(136,093)
Capital contributions	-	15,750	15,750
Proceeds from the sale of capital assets	-	3,385	3,385
Net cash from capital and related financing activities	(10,010)	(106,948)	(116,958)
Cash flows from investing activities			
Interest earnings	24	95	119
Net cash from investing activities	24	95	119
Net change in cash and cash equivalents	(12,895)	(8,684)	(21,579)
Cash and cash equivalents-beginning of year	20,385	20,971	41,356
Cash and cash equivalents-end of year	\$ 7,490	\$ 12,287	\$ 19,777
Reconciliation of operating loss to net cash from operating activities:			
Operating loss	\$ (11,800)	\$ (10,063)	\$ (21,863)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation expense	9,789	96,337	106,126
Change in assets and liabilities:			
Accounts receivable, net	-	(454)	(454)
Inventory	-	9,664	9,664
Prepaid items	2,043	9,130	11,173
Accounts payable	(1,998)	(6,576)	(8,574)
Accrued expenses	(943)	131	(812)
Net cash from operating activities	\$ (2,909)	\$ 98,169	\$ 95,260

PRELIMINARY

City of Clare

Combining Balance Sheet - Fiduciary Funds

June 30, 2016

	General Agency Fund	Current Tax Collection Fund	Payroll Imprest Fund	Total
Assets				
Cash and cash equivalents	\$ -	\$ 101	\$ 37,103	\$ 37,204
Total assets	<u>\$ -</u>	<u>\$ 101</u>	<u>\$ 37,103</u>	<u>\$ 37,204</u>
Liabilities				
Accrued expenses	\$ -	\$ -	\$ 31,080	\$ 31,080
Due to other governmental units	-	101	6,023	6,124
Total liabilities	<u>\$ -</u>	<u>\$ 101</u>	<u>\$ 37,103</u>	<u>\$ 37,204</u>

PRELIMINARY

City of Clare

Combining Balance Sheet - Component Units

June 30, 2016

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and cash equivalents	\$ 41,023	\$ 4,591	\$ 45,614
Accounts receivable	-	-	-
Total assets	<u>\$ 41,023</u>	<u>\$ 4,591</u>	<u>\$ 45,614</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	4,880	-	4,880
Total liabilities	<u>4,880</u>	<u>-</u>	<u>4,880</u>
Fund balances:			
Restricted - debt service	36,143	-	36,143
Restricted - community development	-	4,591	4,591
Total fund balances	<u>36,143</u>	<u>4,591</u>	<u>40,734</u>
Total liabilities and fund balances	<u>\$ 41,023</u>	<u>\$ 4,591</u>	<u>\$ 45,614</u>

PRELIMINARY

City of Clare

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Units

Year Ended June 30, 2016

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Revenues			
Property taxes and related fees	\$ 78,724	\$ -	\$ 78,724
Interest earnings	32	3	35
Reimbursements	3,624	-	3,624
Proceeds from sale of land	-	-	-
Donations	10,000	-	10,000
Miscellaneous	200	-	200
Total revenues	<u>92,580</u>	<u>3</u>	<u>92,583</u>
Expenditures			
Community development	51,009	-	51,009
Debt service:			
Principal	24,000	-	24,000
Interest and related fees	12,636	-	12,636
Total expenditures	<u>87,645</u>	<u>-</u>	<u>87,645</u>
Net change in fund balances	4,935	3	4,938
Fund balances-beginning	31,208	4,588	35,796
Fund balances-ending	<u>\$ 36,143</u>	<u>\$ 4,591</u>	<u>\$ 40,734</u>

PRELIMINARY

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the City Commission
City of Clare
Clare and Isabella Counties, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PRELIMINARY

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PRELIMINARY

Midland, Michigan
November 21, 2016

RESOLUTION 2016-131

A RESOLUTION OF THE CLARE CITY COMMISSION APPROVING THE ANNUAL AUDIT REPORT FOR THE CITY OF CLARE'S FISCAL YEAR 2015/2016.

WHEREAS, an independent audit of the financial statements of the City of Clare for the City's fiscal year ending on June 30, 2016 was conducted by the public accounting firm of Andrews, Hooper & Pavlik (AHP) of Midland, Michigan; and

WHEREAS, said audit resulted in no significant or adverse findings and an unqualified (clean) audit opinion from Andrews, Hooper & Pavlik of the City being in good fiscal condition. Said results being verbally presented to the Clare City Commission by a representative of said accounting firm at a scheduled and noticed public meeting held on November 21, 2016; and

WHEREAS, it is necessary for the Clare City Commission to approve the results of said audit to facilitate the filing of the audit and other related reports with appropriate State of Michigan and certain federal agencies; and

WHEREAS, the City Treasurer/Finance Director, the City Manager and the City Clerk have each reviewed, acknowledged, and formally concurred with the results of the audit; and

WHEREAS, the City Commission was provided with and has had ample time to review a draft copy of said audit report; and

WHEREAS, the City Commission has concluded that said audit report is acceptable and reflects an accurate statement of the fiscal status of the City of Clare.

NOW THEREFORE BE IT RESOLVED that the Clare City Commission hereby approves the results of the independent audit of the financial statements of the City of Clare for the fiscal year ending June 30, 2016. Said audit being conducted by the independent public accounting firm of Andrews, Hooper & Pavlik of Midland, Michigan.

BE IT FURTHER RESOLVED that the City Commission directs its Treasurer and Finance Director to file the appropriate reports of said audit findings and other reports with the various agencies and departments of the State of Michigan and the Federal Government.

ALL RESOLUTIONS AND PARTS OF RESOLUTIONS INSOFAR AS THEY CONFLICT WITH THE PROVISIONS OF THIS RESOLUTION BE AND THE SAME ARE HEREBY RESCINDED.

The Resolution was introduced by Commissioner _____ and supported by Commissioner _____. The Resolution declared adopted by the following roll call vote:

YEAS:

NAYS:

ABSENT:

Resolution approved for adoption on this 21st day of November 2016.

Diane Lyon, City Clerk