

**CITY OF CLAWSON
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2014**

CITY OF CLAWSON
For the Year Ended June 30, 2014

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For the Year Ended June 30, 2014

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FINANCIAL SECTION

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Deborah M. Cox, C.P.A.

Independent Auditor's Report

October 17, 2014

To the Honorable Mayor and Members of the City Council
City of Clawson, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan, as of and for the year ended June 30, 2014, 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.

Auditor's Responsibility

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

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

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

Mayor and Members of the City Council
City of Clawson, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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, the defined benefit pension plan trend information, and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Clawson, Michigan's basic financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully,

PSLZ, LLP

PSLZ LLP

Certified Public Accountants



City of Clawson

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Management's Discussion and Analysis

As management of the City of Clawson, we offer readers of the City of Clawson's financial statements this narrative overview and analysis of the financial activities of the City of Clawson for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the City of Clawson exceeded its liabilities at the close of the most recent fiscal year by \$17,391,006 (*net position*). Of this amount, \$481,714 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$2,207,844, a decrease of \$1,152,258 in comparison with the prior year. Approximately 63 percent of this amount, \$1,400,356 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- The City of Clawson's total contractual and bonded debt decreased by \$432,334 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Clawson's basic financial statements. The City of Clawson's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report contains other supplementary information in addition to 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 of Clawson's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Clawson'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 of Clawson is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal 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 taxes and earned, but unused, leave time).

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Both of the government-wide financial statements distinguish functions of the City of Clawson 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 of Clawson include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Clawson include the water and sewer system and senior citizen housing.

The government-wide financial statements include not only the City of Clawson itself (known as the *primary government*), but also a legally separate downtown development authority for which the City of Clawson is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-12 of this report.

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 of Clawson, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Clawson 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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Clawson maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, 2010 Capital Projects Fund, and the G.O. bond debt service fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget.

Proprietary funds. The City of Clawson maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Clawson used enterprise funds to account for its water and sewer system and for its senior citizen housing. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Clawson's various functions. The City of Clawson uses an internal service fund to account for its fleet of vehicles. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *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 water and sewer system and for senior citizen housing, the first of which is considered to be a major fund of the City of Clawson.

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

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Clawson’s progress in funding its obligation to provide pension benefits to its employees. This information can be found on pages 51-52 of this report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 55-58 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Clawson, assets exceeded liabilities by \$17,391,006 at the close of the most recent fiscal year.

By far the largest portion of the City of Clawson’s net position (91 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, office equipment, furniture, and other equipment); less any related debt used to acquire those assets that are still outstanding. The City of Clawson used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Clawson’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CLAWSON						
Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 3,012,477	\$ 4,655,089	\$ 2,251,419	\$ 3,511,854	\$ 5,263,896	\$ 8,166,943
Capital Assets	31,053,175	31,178,592	15,119,416	14,168,749	46,172,591	45,347,341
Total Assets	34,065,652	35,833,681	17,370,835	17,680,603	51,436,487	53,514,284
Long-term Liab Outstanding	24,730,178	24,891,022	8,281,167	7,935,544	33,011,345	32,826,566
Other Liabilities	715,294	1,231,998	318,842	683,582	1,034,136	1,915,580
Total Liabilities	25,445,472	26,123,020	8,600,009	8,619,126	34,045,481	34,742,146
Net Position:						
Net Investment in						
Capital Assets	8,781,812	8,133,773	7,030,201	6,415,656	15,812,013	14,549,429
Restricted	532,465	1,656,580	564,814	510,736	1,097,279	2,167,316
Unrestricted	(694,097)	(79,692)	1,175,811	2,135,085	481,714	2,055,393
Total Net Position	\$ 8,620,180	\$ 9,710,661	\$ 8,770,826	\$ 9,061,477	\$ 17,391,006	\$ 18,772,138

The remaining balance of *unrestricted net position* \$481,714 may be used to meet the City's ongoing obligations to citizens and creditors. A portion of net position is restricted for specific purposes (\$1,097,279).

During the current fiscal year, net position decreased by \$1,381,132, due to escalating legacy costs and flat revenues.

Governmental activities. Governmental activities decreased the City of Clawson's net position by \$1,090,481. Revenues decreased by 1% while expenses increased 8%.

City of Clawson – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,048,663	\$ 1,052,002	\$ 4,056,319	\$ 4,263,348	\$ 5,104,982	\$ 5,315,350
Operating Grants & Contributions	856,048	846,342	-	-	856,048	846,342
Capital Grants & Contributions	21,027	289,783	-	-	21,027	289,783
General Revenues:						
Property Taxes	7,424,794	7,304,624	638,188	716,692	8,062,982	8,021,316
State Shared Revenues	1,020,610	992,757	-	-	1,020,610	992,757
Franchise Fees	212,553	196,273	-	-	212,553	196,273
Unrestricted Investment Earnings	31,431	34,630	1,694	2,423	33,125	37,053
Total Revenues	10,615,126	10,716,411	4,696,201	4,982,463	15,311,327	15,698,874
Expenses:						
General Government	3,690,289	3,060,839	-	-	3,690,289	3,060,839
Public Safety	2,514,419	2,610,208	-	-	2,514,419	2,610,208
Public Works	2,478,602	2,127,079	-	-	2,478,602	2,127,079
Sanitation	855,884	851,118	-	-	855,884	851,118
Health and Welfare	142,134	219,262	-	-	142,134	219,262
Recreation and Cultural	1,048,142	1,008,145	-	-	1,048,142	1,008,145
Interest on Long-Term Debt	813,341	746,921	-	-	813,341	746,921
Water and Sewer	-	-	4,916,367	4,418,929	4,916,367	4,418,929
Senior Housing	-	-	40,485	45,480	40,485	45,480
Total Expenses	11,542,811	10,623,572	4,956,852	4,464,409	16,499,663	15,087,981
Change in Net Position before Transfers	(927,685)	92,839	(260,651)	518,054	(1,188,336)	610,893
Transfers (to)from Component Unit	(192,796)	-	-	-	(192,796)	-
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	\$ (1,090,481)	\$ 122,839	\$ (290,651)	\$ 488,054	\$ (1,381,132)	\$ 610,893

Business-type activities. Business-type activities decreased the City of Clawson's net position by \$290,651. Key elements of this increase are as follows:

- Payment for water main replacement and replacement of additional sewers and sewer repair outside of the SRF program reduced our water and sewer fund cash reserves which led to a decrease in our net position.
- Clawson was able to maintain the water and sewer rate for the year and we had a slight decrease in the overall fixed rate. The City completed most of our sewer rehabilitation program that has been repairing and replacing the worst sewers in the City. That fee during the 2013-2014 fiscal years was \$10.95 per quarter for a residential customer. This program is run through the State Revolving Fund and is a low interest loan to complete the repairs to the sewer system. This loan must be paid back through revenues of the water and sewer system. The consumption rate for water went up slightly and the sewer rate remained the same during the fiscal year. The fixed rate costs went down slightly due to the decrease in the debt rate.
- The average monthly charge for a water and sewer residential customer decreased from \$38.10 to \$37.73 which is a decrease of 1.23%.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Clawson'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 of Clawson's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$2,207,844, a decrease of \$1,152,258 in comparison with the prior year. 63 percent of this total amount \$1,400,356 constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. Details of fund balance allocation are found in the notes to the financial statements.

The general fund is the chief operating fund of the City of Clawson. At the end of the current fiscal year, unrestricted fund balance of the general fund was \$1,400,356, while total fund balance is \$1,660,411. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 21 percent of total general fund expenditures, while total fund balance represents 23 percent of that same amount.

The fund balance of the City of Clawson's general fund decreased by \$25,135 during the current fiscal year. Key factors in this decrease are as follows:

- Although revenues increased slightly again expenditures were up slightly more due to contractual benefit increases. This small reduction in our fund balance came from our internal capital reserve. The City Council has a fund balance policy that keeps 10% of annual expenditures in an emergency-only reserve.
- The City added two full time employees in our Department of Public Works. We also had a police officer retire during the year who will be replaced. This will keep us at our reduced minimum contract levels for full-time employment.
- We received a distribution of surplus funds from our liability insurance carrier of \$31,000 after receiving \$115,000 the previous fiscal year. This reduction of \$84,000 was a big factor in our slight deficit for the year. These amounts will continue to vary from year to year and this was well below average.

Proprietary funds. The City of Clawson'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 Water and Sewer Fund at the end of the year amounted to \$1,068,895 and \$106,916 for the Senior Housing Fund. The total (decline)/growth in net position for both funds were \$(296,298) and \$5,647 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Clawson's business-type activities.

General Fund Budgetary Highlights

We completed an energy efficiency program that decreased our energy costs during the first year of the program. Honeywell coordinated the project and agreed to a level of guaranteed savings that will save us energy monies in all of our buildings. We borrowed the money using Act 99 Financing and will pay back the money over a 15 year period. Overall we reduced our debt burden. We had anticipated a level budget year, but due to some slightly lower than anticipated revenues and slight increases in expenditures due to contract settlements, we ended with a slight deficit. The best news is that we were also able to continue with some capital purchasing projects to replace outdated and inefficient equipment in our Police Department and Fire Department.

Capital Asset and Debt Administration

Capital assets. The City of Clawson's investment in capital assets for its governmental and business type activities as of June 30, 2014, amounts to \$38,191,108 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, intangible assets and streets.

Major capital asset events during the current fiscal year included the following:

- City Hall Exterior and Interior Upgrades \$21,300
- Sewer Improvements \$1,172,000 (SRF)
- Water Lines \$100,000
- Police Vehicles \$57,000
- Fire Department Equipment and Building Updates \$57,500
- Motor Pool-New Dump Trucks-\$296,662

Long-term debt. At the end of the current fiscal year, the City of Clawson had total bonded debt outstanding of \$23,739,654, SRF revenue bonds of \$2,934,894, and \$3,846,030 of contracts payable. All of the City of Clawson's debt represents general obligation debt backed by the full faith and credit of the City of Clawson. Additional information on the City of Clawson's long-term debt can be found in note III. E. on pages 37-39 of this report.

Economic Factors and Next Year's Budgets and Rates

We have finally turned the corner with an anticipated long straightaway ahead. Home values are showing strong gains and the future is looking better for tax revenue. With the passage of Proposal 1, we anticipate replacement revenue for the gradual elimination of personal property tax in Michigan for businesses. We anticipate a reduction in fund balance of \$55,975 for the 2014-2015 budget year. That amount would come from our unofficial capital reserve budget to replace outdated equipment. We will continue to pay back the debt for our energy efficiency project during the 2014-2015 budget year. Clawson has completed a significant amount of improvement over an 8-year period to the buildings, roads, and infrastructure within the City. We plan to continue the repair and replacement of old sewer and water lines through a maintenance program in our water and sewer fund. We will continue to set aside money each year to continue upgrading our oldest areas of infrastructure. We should get the completed report from our engineering firm that has our asset management plan. The GIS report will address all of our repairs

to date and the remaining plan to repair and replace the infrastructure that needs to be upgraded. We anticipate that 2014-2015 will allow us to continue along the path of recovery for tax revenue and projects that need attention will be completed. We will also continue to be steadfast in our pursuit of grants wherever they are available.

Our combined operating millage rates will allow us to continue to provide the services that our residents have grown accustomed to. We will levy 2.9 mills for rubbish and 15 total mills for general operating purposes. As home values continue to rise, we will likely see some higher increases in property tax dollars. These increases will help us maintain our fund balance at a comfortable level. Although our debt burden is at a higher level than we would like, we have been diligent in fixing the problems in Clawson that are long overdue for repair. The tremendous support of this community continues to allow us to fix the problems that need fixing. I continue to believe much of the success of Clawson is the sense of pride in community that is demonstrated over and over again, even when the chips are down. Clawson is enriched with families who have been here for generations and a steady flow of new homeowners who are starting their own family legacy in Clawson. Within our financial forecast, we were able to restore some of the cuts that we had made to wages and health benefits, while keeping the costs manageable to sustain us for the future. We also continue to adjust our health care plans to provide quality health care, while keeping the costs sustainable into the future for both our active and retired employees.

We have made it through an unmatched period of decline that allowed us to tighten our belt and continue to maintain most of the cost cuts that we made during the lean times we experienced over the previous six years.

For the 2014-2015 fiscal year we will begin the project that we were awarded a grant through MDOT that will allow us to make visiting Downtown Clawson a safer experience. Mid-block crossing islands and signalized traffic controls will be installed on 14 Mile Road to assist those walking or biking across our widest and busiest street in Clawson. This grant will contribute 65% of the project cost up to \$267,400. We had hoped that the grant award would come through for funding in 2014, but we have been told by MDOT that we would receive funding approval in 2015. All of the design has been reviewed and approved, so we will have three pedestrian crossing islands when the project is completed.

I would like to thank everyone in Clawson for the continued support of what we are accomplishing. This is a wonderful and supportive community that truly fits our motto, "The little City with a BIG heart."

Requests for Information

This financial report is designed to provide a general overview of the City of Clawson's finances for all those with an interest in the government's finances. Questions should be addressed to the Office of the City Manager/Finance Director, City of Clawson, 425 N. Main Street, Clawson, Michigan 48017-1555.

BASIC FINANCIAL STATEMENTS

CITY OF CLAWSON
Statement of Net Position
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Dev Authority
ASSETS				
Cash and Cash Equivalents	\$ 2,009,279	\$ 335,531	\$ 2,344,810	\$ 310,186
Investments	581,487	-	581,487	-
Receivables (net of Allowance for Uncollectible)	221,178	1,172,746	1,393,924	11,367
Due from Other Governmental Units	79,744	-	79,744	-
Due from Other Funds	341	-	341	-
Due from Primary Government	-	-	-	397
Advance to Component Unit	105,112	-	105,112	-
Prepaid Expenditures	15,336	49	15,385	-
Restricted Cash	-	743,093	743,093	-
Capital Assets (net of Accumulated Depreciation)	31,053,175	7,137,933	38,191,108	-
Intangible Assets (net of Accumulated Amortization)	-	7,981,483	7,981,483	-
Total Assets	<u>34,065,652</u>	<u>17,370,835</u>	<u>51,436,487</u>	<u>321,950</u>
LIABILITIES				
Accounts Payable	327,276	285,373	612,649	1,649
Accrued Liabilities	144,567	32,637	177,204	481
Due to Other Funds	-	340	340	-
Deposits	196,523	492	197,015	-
Due to Component Unit	397	-	397	-
Advance from Primary Government	-	-	-	105,112
Unearned Revenue	46,531	-	46,531	-
Noncurrent Liabilities:				
Other Post Employment Benefits (OPEB)	2,054,709	-	2,054,709	-
Compensated Absences	404,106	31,952	436,058	-
Due within One Year	1,203,514	679,232	1,882,746	-
Due in More than One Year	21,067,849	7,569,983	28,637,832	-
Total Liabilities	<u>25,445,472</u>	<u>8,600,009</u>	<u>34,045,481</u>	<u>107,242</u>
NET POSITION				
Net Investment in Capital Assets	8,781,812	7,030,201	15,812,013	-
Restricted – Capital Projects	948	-	948	145,107
Restricted – Special Revenue	407,895	-	407,895	-
Restricted – Debt Service	123,622	564,814	688,436	-
Unrestricted	(694,097)	1,175,811	481,714	69,601
Total Net Position	<u>\$ 8,620,180</u>	<u>\$ 8,770,826</u>	<u>\$ 17,391,006</u>	<u>\$ 214,708</u>

CITY OF CLAWSON
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,690,289	\$ 307,052	\$ 101,665	\$ -
Public Safety	2,514,419	378,148	-	-
Public Works	2,478,602	140,040	744,240	21,027
Sanitation	855,884	-	-	-
Health and Welfare	142,134	-	-	-
Recreation and Cultural	1,048,142	223,423	10,143	-
Interest on Long-Term Debt	813,341	-	-	-
Total Governmental Activities	<u>11,542,811</u>	<u>1,048,663</u>	<u>856,048</u>	<u>21,027</u>
Business-type Activities:				
Water and Sewer	4,916,367	3,980,236	-	-
Senior Citizen Housing	40,485	76,083	-	-
Total Business-type Activities	<u>4,956,852</u>	<u>4,056,319</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 16,499,663</u>	<u>\$ 5,104,982</u>	<u>\$ 856,048</u>	<u>\$ 21,027</u>
Component Unit:				
Downtown Development Authority	<u>\$ 123,749</u>	<u>\$ 11,536</u>	<u>\$ 742</u>	<u>\$ -</u>

General Revenues:
Property Taxes
State Shared Revenue
Cable Franchise
Unrestricted Investment Earnings
Transfers Component Unit
Transfers
Total General Revenues and Transfers

Change in Net Position
Net Position – Beginning

Net Position – Ending

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (3,281,572)	\$ -	\$ (3,281,572)	\$ -
(2,136,271)	-	(2,136,271)	-
(1,573,295)	-	(1,573,295)	-
(855,884)	-	(855,884)	-
(142,134)	-	(142,134)	-
(814,576)	-	(814,576)	-
(813,341)	-	(813,341)	-
<u>(9,617,073)</u>	<u>-</u>	<u>(9,617,073)</u>	<u>-</u>
-	(936,131)	(936,131)	-
-	35,598	35,598	-
<u>-</u>	<u>(900,533)</u>	<u>(900,533)</u>	<u>-</u>
<u>(9,617,073)</u>	<u>(900,533)</u>	<u>(10,517,606)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(111,471)</u>
7,424,794	638,188	8,062,982	127,406
1,020,610	-	1,020,610	-
212,553	-	212,553	-
31,431	1,694	33,125	129
(192,796)	-	(192,796)	192,796
30,000	(30,000)	-	-
<u>8,526,592</u>	<u>609,882</u>	<u>9,136,474</u>	<u>320,331</u>
(1,090,481)	(290,651)	(1,381,132)	208,860
<u>9,710,661</u>	<u>9,061,477</u>	<u>18,772,138</u>	<u>5,848</u>
<u>\$ 8,620,180</u>	<u>\$ 8,770,826</u>	<u>\$ 17,391,006</u>	<u>\$ 214,708</u>

CITY OF CLAWSON
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>G.O. Bond Debt Fund</u>	<u>2010 Capital Impr. Capital Project</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,325,418	\$ 107,051	\$ 948	\$ 422,957	\$ 1,856,374
Investments	581,487	-	-	-	\$ 581,487
Receivables (net of Allowance for Uncollectible)	191,485	-	-	29,693	221,178
Due from Other Governmental Units	27,221	-	-	52,523	79,744
Due from Other Funds	573	-	-	-	573
Advance to Component Unit	105,112	-	-	-	105,112
Prepaid Expenditures	359	-	-	14,968	15,327
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,231,655</u>	<u>\$ 107,051</u>	<u>\$ 948</u>	<u>\$ 520,141</u>	<u>\$ 2,859,795</u>

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts Payable	\$ 251,625	\$ -	\$ -	\$ 68,431	\$ 320,056
Deposits	196,523	-	-	-	196,523
Accrued and Other Liabilities	76,168	-	-	12,044	88,212
Due to Other Funds	-	-	-	232	232
Due to Component Units	397	-	-	-	397
Unearned Revenue	46,531	-	-	-	46,531
Total Liabilities	<u>571,244</u>	<u>-</u>	<u>-</u>	<u>80,707</u>	<u>651,951</u>
Fund Balance:					
Non Spendable:					
Prepaid and Other	149,093	-	-	14,968	164,061
Long-Term Advances	105,112	-	-	-	105,112
Restricted:					
Debt Service	-	107,051	-	16,571	123,622
Capital Projects	-	-	948	-	948
Drug Law Enforcement	5,850	-	-	-	5,850
Special Revenue Funds	-	-	-	407,895	407,895
Assigned	101,920	-	-	-	101,920
Unassigned	1,298,436	-	-	-	1,298,436
Total Fund Balance	<u>1,660,411</u>	<u>107,051</u>	<u>948</u>	<u>439,434</u>	<u>2,207,844</u>
Total Liabilities and Fund Balance	<u>\$ 2,231,655</u>	<u>\$ 107,051</u>	<u>\$ 948</u>	<u>\$ 520,141</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	30,373,991
Other postemployment benefit obligations are not reported in the funds.	(2,054,709)
Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	497,490
IBNR Liabilities are not reported in the funds.	(52,500)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonded Debt	(21,974,701)
Compensated Absences	(377,235)
	<u>\$ 8,620,180</u>

CITY OF CLAWSON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2014

	General	G.O. Bond Debt Fund	2010 Capital Impr. Capital Project	Other Governm. Funds	Total Governm. Funds
Revenues					
Property Taxes	\$ 4,574,359	\$ 1,400,377	\$ -	\$ 1,242,802	\$ 7,217,538
Property Tax Administration Fee	172,937	-	-	-	172,937
Penalties and Interest	34,317	-	-	-	34,317
Licenses and Permits	171,782	-	-	-	171,782
Intergovernmental:					
Federal, State and Local	1,137,884	-	-	738,774	1,876,658
Charges for Services	442,511	-	-	-	442,511
Fines and Forfeitures	165,444	-	-	-	165,444
Franchise Fees	212,553	-	-	-	212,553
Interest	29,383	308	704	953	31,348
Other	100,377	-	18,027	171,551	289,955
Total Revenues	<u>7,041,547</u>	<u>1,400,685</u>	<u>18,731</u>	<u>2,154,080</u>	<u>10,615,043</u>
Expenditures					
Current:					
General Government	1,066,871	-	-	-	1,066,871
Public Safety	2,437,731	-	-	-	2,437,731
Public Works	718,430	-	-	968,051	1,686,481
Sanitation	-	-	-	731,217	731,217
Health and Welfare	142,134	-	-	-	142,134
Recreation and Cultural	570,090	-	-	478,052	1,048,142
Other Functions	1,747,454	-	-	-	1,747,454
Debt Service:					
Principal	145,118	725,000	-	140,000	1,010,118
Interest and Other Charges	74,475	693,477	-	40,767	808,719
Capital Outlay	204,350	-	661,288	-	865,638
Total Expenditures	<u>7,106,653</u>	<u>1,418,477</u>	<u>661,288</u>	<u>2,358,087</u>	<u>11,544,505</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(65,106)</u>	<u>(17,792)</u>	<u>(642,557)</u>	<u>(204,007)</u>	<u>(929,462)</u>
Other Financing Sources (Uses)					
Transfers In	117,971	-	-	143,000	260,971
Transfers Out	(78,000)	-	-	(152,971)	(230,971)
Transfer to Component Unit	-	-	-	(252,796)	(252,796)
Total Other Financing Sources (Uses)	<u>39,971</u>	<u>-</u>	<u>-</u>	<u>(262,767)</u>	<u>(222,796)</u>
Net Change in Fund Balance	(25,135)	(17,792)	(642,557)	(466,774)	(1,152,258)
Fund Balance – Beginning	<u>1,685,546</u>	<u>124,843</u>	<u>643,505</u>	<u>906,208</u>	<u>3,360,102</u>
Fund Balance – Ending	<u>\$ 1,660,411</u>	<u>\$ 107,051</u>	<u>\$ 948</u>	<u>\$ 439,434</u>	<u>\$ 2,207,844</u>

CITY OF CLAWSON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds \$ (1,152,258)

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. This is the amount by which capital outlays exceeded depreciation expense in the current period:

Capital Outlay Expenditures	\$	865,638	
Depreciation Expense		<u>(1,171,070)</u>	(305,432)

The net increase in other post employment benefit obligations (OPEB) and IBNR does not require current resources and are not included in governmental funds. (652,285)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Principal Payments on Long Term Bonds	\$	1,010,118	
Principal Payments on Long Term Bonds-D.D.A.		60,000	
Decrease (Increase) in Compensated Absences		<u>(6,913)</u>	1,063,205

Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue(loss) of certain activities of internal service funds is reported with governmental activities. (43,711)

Change in net position in governmental activities \$ (1,090,481)

CITY OF CLAWSON
Balance Sheet
Proprietary Funds
June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 235,990	\$ 99,541	\$ 335,531	\$ 152,905
Accounts Receivable	1,164,406	8,340	1,172,746	-
Prepaid Expenses	49	-	49	9
Total Current Assets	<u>1,400,445</u>	<u>107,881</u>	<u>1,508,326</u>	<u>152,914</u>
Non Current Assets:				
Restricted Cash and Cash Equivalents				
Revenue Bond Covenant Accounts	741,365	-	741,365	-
Construction Cash Accounts	1,728	-	1,728	-
Total Restricted Assets	<u>743,093</u>	<u>-</u>	<u>743,093</u>	<u>-</u>
Property, Plant and Equipment:				
Land	-	54,028	54,028	-
Land Improvements	-	59,512	59,512	-
Buildings	52,932	447,096	500,028	-
Infrastructure	11,219,840	-	11,219,840	-
Machinery and Equipment	182,171	65,713	247,884	2,297,940
Accumulated Depreciation	(4,618,511)	(324,848)	(4,943,359)	(1,618,756)
Net Property, Plant and Equipment	<u>6,836,432</u>	<u>301,501</u>	<u>7,137,933</u>	<u>679,184</u>
Intangible Assets (net of Accumulated Amortization)	<u>7,981,483</u>	<u>-</u>	<u>7,981,483</u>	<u>-</u>
Total Assets	<u>\$ 16,961,453</u>	<u>\$ 409,382</u>	<u>\$ 17,370,835</u>	<u>\$ 832,098</u>
LIABILITIES AND NET POSITION				
Current Liabilities:				
Accounts Payable	\$ 284,900	\$ 473	\$ 285,373	\$ 7,220
Accrued Liabilities	14,358	-	14,358	3,855
Due to Other Funds	340	-	340	-
Deposits	-	492	492	-
Contracts Payable	139,276	-	139,276	59,332
Bonds Payable	379,956	-	379,956	-
Total Current Liabilities	<u>818,830</u>	<u>965</u>	<u>819,795</u>	<u>70,407</u>
Current Liabilities Payable from Restricted Assets:				
Revenue Bonds Payable	160,000	-	160,000	-
Accrued Interest Payable	18,279	-	18,279	-
Total Current Liabilities Payable from Restricted Assets	<u>178,279</u>	<u>-</u>	<u>178,279</u>	<u>-</u>
Long-Term Liabilities:				
Compensated Absences Payable	31,952	-	31,952	26,871
Contracts Payable	895,391	-	895,391	237,330
Revenue Bonds payable	2,774,894	-	2,774,894	-
Bonds Payable	3,899,698	-	3,899,698	-
Total Long-Term Liabilities	<u>7,601,935</u>	<u>-</u>	<u>7,601,935</u>	<u>264,201</u>
Net Position:				
Net Investment in Capital Assets	6,728,700	301,501	7,030,201	382,522
Restricted for Debt Service and Construction	564,814	-	564,814	-
Unrestricted	1,068,895	106,916	1,175,811	114,968
Total Net Position	<u>8,362,409</u>	<u>408,417</u>	<u>8,770,826</u>	<u>497,490</u>
Total Liabilities and Net Position	<u>\$ 16,961,453</u>	<u>\$ 409,382</u>	<u>\$ 17,370,835</u>	<u>\$ 832,098</u>

CITY OF CLAWSON
Statement of Revenues, Expenses and Changes in Position
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
<u>Operating Revenues:</u>				
Water Charges for Services	\$ 1,198,787	\$ -	\$ 1,198,787	\$ -
Water Treatment Charges for Services	2,781,449	-	2,781,449	-
Rental Income	-	75,330	75,330	392,087
Intergovernmental	-	-	-	-
Miscellaneous	-	753	753	-
Total Operating Revenues	<u>3,980,236</u>	<u>76,083</u>	<u>4,056,319</u>	<u>392,087</u>
<u>Operating Expenses:</u>				
Water Department	1,383,640	-	1,383,640	-
Sewer Department	3,002,381	-	3,002,381	-
Senior Citizens Housing	-	26,126	26,126	-
Motor Pool	-	-	-	314,612
Depreciation and Amortization	316,741	14,359	331,100	116,647
Total Operating Expenses	<u>4,702,762</u>	<u>40,485</u>	<u>4,743,247</u>	<u>431,259</u>
Operating Income (Loss)	<u>(722,526)</u>	<u>35,598</u>	<u>(686,928)</u>	<u>(39,172)</u>
<u>Non-Operating Revenues (Expenses):</u>				
Interest Earned	1,645	49	1,694	83
Property Taxes Levied for Debt Service	638,188	-	638,188	-
Interest Expense	(213,605)	-	(213,605)	(4,622)
Total Non-Operating Revenues (Expenses)	<u>426,228</u>	<u>49</u>	<u>426,277</u>	<u>(4,539)</u>
Income (Loss) before Operating Transfers	(296,298)	35,647	(260,651)	(43,711)
<u>Operating Transfers:</u>				
Operating Transfers Out	-	(30,000)	(30,000)	-
Net Income (Loss)	(296,298)	5,647	(290,651)	(43,711)
Net Position – Beginning	<u>8,658,707</u>	<u>402,770</u>	<u>9,061,477</u>	<u>541,201</u>
Net Position – Ending	<u>\$ 8,362,409</u>	<u>\$ 408,417</u>	<u>\$ 8,770,826</u>	<u>\$ 497,490</u>

CITY OF CLAWSON
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities – Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from Customers and Users	\$ 4,785,771	\$ 77,493	\$ 4,863,264	\$ 392,087
Payments to Suppliers	(3,999,268)	(26,056)	(4,025,324)	(199,293)
Payments to Employees	(745,147)	-	(745,147)	(111,848)
Net Cash Provided (Used) by Operating Activities	<u>41,356</u>	<u>51,437</u>	<u>92,793</u>	<u>80,946</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Property Taxes Levied for Debt Service	638,188	-	638,188	-
Transfer to Other Funds	-	(30,000)	(30,000)	-
Net Cash Provided by (Used) Non-Capital Financing Activities	<u>638,188</u>	<u>(30,000)</u>	<u>608,188</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Purchases of Capital Assets	(1,272,023)	(9,744)	(1,281,767)	(296,662)
Principal Paid on Capital Debt	(658,440)	-	(658,440)	-
Proceeds of Long Term Borrowing	999,562	-	999,562	296,662
Interest Paid on Capital Debt	(213,605)	-	(213,605)	(4,622)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,144,506)</u>	<u>(9,744)</u>	<u>(1,154,250)</u>	<u>(4,622)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Earned	1,645	49	1,694	83
Net Increase (Decrease) in Cash and Cash Equivalents	(463,317)	11,742	(451,575)	76,407
Cash and Cash Equivalents – Beginning	1,442,400	87,799	1,530,199	76,498
Cash and Cash Equivalents – Ending	<u>\$ 979,083</u>	<u>\$ 99,541</u>	<u>\$ 1,078,624</u>	<u>\$ 152,905</u>
Presented as:				
Unrestricted Cash	\$ 235,990	\$ 99,541	\$ 335,531	\$ 152,905
Restricted Cash	743,093	-	743,093	-
	<u>\$ 979,083</u>	<u>\$ 99,541</u>	<u>\$ 1,078,624</u>	<u>\$ 152,905</u>
Note: Bond Proceeds were calculated by the SRF draws actually received during the fiscal year.				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ (722,526)	\$ 35,598	\$ (686,928)	\$ (39,172)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	316,741	14,359	331,100	116,647
(Increase) Decrease in Receivables	805,535	1,410	806,945	-
(Increase) Decrease in Prepays	1,915	-	1,915	1,396
Increase (Decrease) in Accounts Payable	(372,321)	70	(372,251)	(3,955)
Increase (Decrease) in Accrued Liabilities	11,672	-	11,672	6,030
Increase (Decrease) in Due From Other Funds	340	-	340	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,356</u>	<u>\$ 51,437</u>	<u>\$ 92,793</u>	<u>\$ 80,946</u>

CITY OF CLAWSON
Statement of Net Position
Fiduciary Funds
June 30, 2014

<u>ASSETS</u>	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>	<u>Agency Funds</u>
Cash	\$ 324,774	\$ 7,313	\$ 3,137
Investments, at Fair Value:			
Bonds and Notes	-	1,186,976	-
Common Stock	-	2,473,533	-
Total Investments	<u>-</u>	<u>3,660,509</u>	<u>-</u>
Total Assets	<u>324,774</u>	<u>3,667,822</u>	<u>3,137</u>
 <u>LIABILITIES</u>			
Due to Other Funds	-	-	1
Due to Other	-	-	3,136
Total Liabilities	<u>-</u>	<u>-</u>	<u>3,137</u>
 Net Position Restricted for Pensions	<u>\$ 324,774</u>	<u>\$ 3,667,822</u>	<u>\$ -</u>

CITY OF CLAWSON
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>
<u>ADDITIONS</u>		
Investment Income:		
Earnings on Investments	\$ 171	\$ -
Net Appreciation (Depreciation) in Fair Value of Investments	-	558,026
Contributions:		
Employer	<u>80,775</u>	<u>60,000</u>
Total Additions	<u>80,946</u>	<u>618,026</u>
 <u>DEDUCTIONS</u>		
Benefits Paid	61,435	165,988
Administrative Costs	-	43,387
Total Deductions	<u>61,435</u>	<u>209,375</u>
 Net Increase (Decrease)	 19,511	 408,651
 Net Position Restricted for Pensions		
Retirement Benefits:		
Beginning of Year	305,263	3,259,171
End of Year	<u>\$ 324,774</u>	<u>\$ 3,667,822</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Clawson, Michigan, was established in 1940 and covers an area of approximately 2.4 square miles. The City operates under an elected Mayor and City Council, with a full-time City Manager appointed by this body to carry out the policies that it establishes. Services are provided to approximately 13,000 residents in the areas of police and fire protection, building code enforcement, refuse removal, parks and recreation, road construction, street lighting, maintenance, senior housing and water and sewer.

As required by generally accepted accounting principles, these financial statements present the City of Clawson and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority

The City of Clawson Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the City's business district. The DDA Board is appointed by the City Council and the annual operating budget and any modifications require the approval of the City Council. The DDA has a June 30 fiscal year end.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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.

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 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.

Property taxes, franchise fees, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

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.

Unlimited Tax General Obligation Debt Service Fund – used to account for taxes levied to pay Street Debt.

2010 Capital Improvement-Capital Project Fund-used to account for the proceeds from the 2010 G.O. Bonds.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Governmental Funds – Continued

In addition, the City reports on the following fund types:

The Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The Debt Service Funds account for the resources that are legally restricted to expenditures for principal and interest payments on long-term debt of governmental funds.

Capital Project Funds are used to account for the proceeds of long-term borrowings used to fund various projects.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds include the Water and Sewer Fund, which is reported as a major fund, and the Senior Citizen Housing Fund, which is reported as a nonmajor fund.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary Funds include the following fund types:

The Pension Trust Fund accounts for the activities of the Fire Department Retirement System, which accumulates resources for pension, benefit payments to qualified fire department employees.

The V.E.B.A. Health Care Trust Fund was established to accumulate resources for certain post employment benefit payments to qualified employees.

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "due to/from other funds"

Advances between funds, as reported in the fund financial statements, are considered 'non spendable' allocation of fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2014.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

4. Capital Assets – Continued

Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	31
Infrastructure	30-50
Equipment	5-20
Vehicles	5-7

5. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the statement of net position. This liability is composed of employees who retire who are paid for fifty to fifty-five percent of unused sick days upon termination of employment and any unused vacation paid upon termination of employment.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

6. Long-Term Obligations – Continued

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the statement of net position. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

7. Fund Balance

In accordance with Generally Accepted Accounting Principles, the City's fund balance in governmental funds is classified as follows:

- Non-Spendable – Amounts classified as “non-spendable” include balances in prepaid insurance and retention (\$164,061), which are deemed “non-spendable,” as they cannot be liquidated to spend in the following year, and the long term advance to the DDA (\$105,112).
- Restricted – Equity in Special Revenue Funds (spendable), Capital Projects and Debt Service Funds are restricted to those activities by State law or by resolutions of City Council.
- Committed Fund Balances – Amounts that have been formally set aside by City Council for use for a specific purpose. Commitments are made by resolution of the City Council.
- Assigned Fund balances are developed by City Administration and are generally reviewed and approved by City Council. Expenditures are first applied to “assigned” then to “unassigned” balances.

The City's fund balance policy states that the general fund must have at least 10% of prior year revenues in ‘unassigned’ fund balance. The City does not have a Budget Stabilization Fund.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

7. Fund Balance – Continued

The City's General and Special Revenue funds have the following allocations:

<u>General Fund</u>	
Non-Spendable:	
Prepaid Insurance & L.T. Advance	\$ <u>254,205</u>
Restricted:	
Drug Law Enforcement/Capital	<u>5,850</u>
Assigned:	
2014-2015 Budget	51,920
Leave Buy Outs	<u>50,000</u>
	<u>101,920</u>
Unassigned	<u>1,298,436</u>
Total	\$ <u><u>1,660,411</u></u>
<u>Special Revenue Funds</u>	
Non-Spendable:	
Prepaid Insurance/Insurance	\$ 14,968
Restricted to Specific	
Purposes	<u>407,895</u>
Total	\$ <u><u>422,863</u></u>
<u>Debt Service Funds</u>	
Restricted to Debt	
Service	\$ <u><u>123,622</u></u>
<u>Capital Project Funds</u>	
Restricted to Capital	
Projects	\$ <u><u>948</u></u>

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2014 several budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

Excess of Expenditures over Appropriations in Budgetary Funds

The budgets for the General and Special Revenue Funds are adopted at the activity level; expenditures in excess of budget appropriations are as follows:

<u>General Fund</u>	<u>Final Budget</u>	<u>Actual</u>	Excess Expenditures Over <u>Appropriations</u>
Capital Outlay	\$175,100	\$204,350	\$29,250

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City’s building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2014 are as follows:

Cumulative Balance at June 30, 2014	\$(1,855,219)
Fees Collected in Fiscal Year 2014	171,782
Expenditures in Fiscal Year 2014	<u>(238,078)</u>
Revenues Over (Under) Expenditures	<u><u>\$(1,921,515)</u></u>

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and V.E.B.A. Health Care Trust Fund are also authorized by Michigan Public Act 55 of 1982 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

Custodial Credit Risk. In the event of a bank failure, the City’s deposits may not be recovered. The City’s investment policy requires the Finance Director to consider custodial credit risk by utilizing F.D.I.C. insurance coverage and collateralization of deposits. As of June 30, 2014, the City’s book balance of its deposits was \$3,421,698; the total book balance was \$3,423,127, due to \$1,429 in cash on hand. The bank balance was \$3,425,038 which was exposed to custodial credit risk as follows:

	<u>Bank</u>
	<u>Balance</u>
Insured by F.D.I.C.	\$ 1,000,378
Collateralized in the City’s Name	1,928,379
Uninsured and Uncollateralized	<u>496,281</u>
Total	<u><u>\$ 3,425,038</u></u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

A reconciliation of cash for the primary government follows:

Statement of Net Position:

Cash and Cash Equivalents	\$ 2,344,810
Restricted Cash	743,093
Fiduciary Funds:	
V.E.B.A. Trust & Pension Trust	332,087
Agency Funds	<u>3,137</u>
Total	<u>\$ 3,423,127</u>

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Collateralized in DDA's Name</u>
Downtown Development Authority	<u>\$310,186</u>	<u>\$310,036</u>	<u>\$310,036</u>

Interest Rate Risk. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of deposits are as follows:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Primary Government:		
Cash and Cash Equivalents:		
Certificates of Deposit	\$ 600,357	2.71 Years
Savings and Checking Accounts	2,335,647	Demand
Money Market	<u>489,034</u>	Demand
	<u>\$ 3,425,038</u>	
Investments:		
Government Agency Notes	<u>\$ 581,487</u>	5.6 years
Trust Funds:		
Mutual Fund – Bonds	\$ 1,186,976	Not Available
Mutual Funds – Equity	<u>2,473,533</u>	N/A
	<u>\$ 3,660,509</u>	
Component Unit:		
Checking	<u>\$ 310,036</u>	Demand

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

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

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government:			
Cash and Cash Equivalents			
Cash and Certificates			
Of Deposits	\$ 2,936,004	N/A	N/A
Money Market	<u>489,034</u>	Not Rated	
	<u>\$ 3,425,038</u>		
Investments:			
Government Agency			
Notes	<u>\$ 581,487</u>	AA+	S&P
Trust Fund:			
Mutual Fund – Bonds			
	\$ 1,186,976	Not Rated	
Mutual Funds – Equity	<u>2,473,533</u>	N/A	N/A
	<u>\$ 3,660,509</u>		
Component Unit:			
Checking	<u>\$ 310,036</u>	N/A	N/A

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Primary Government:	
Government Agency Notes	100%
Trust Fund:	
Equities:	
Comerica Medium CAP Index FD	9.6%
Comerica Small Cap Index FD	11.1%
Comerica S&P Index FD	31.7%
Comerica Foreign Equity FD	14.6%
Component Units:	None

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not Depreciated:				
Land	\$ 706,743	\$ 12,360	\$ -	\$ 719,103
Capital Assets, being Depreciated:				
Building and Improvements	10,406,859	72,777	-	10,479,636
Machinery and Equipment	955,103	61,796	-	1,016,899
Vehicles	1,834,201	57,417	(49,250)	1,842,368
Infrastructure	25,652,223	661,288		26,313,511
Internal Service Fund	2,001,278	296,662	-	2,297,940
	<u>40,849,664</u>	<u>1,149,940</u>	<u>(49,250)</u>	<u>41,950,354</u>
Less: Accumulated Depreciation:				
Building and Improvements	(4,208,753)	(357,706)	-	(4,566,459)
Machinery and Equipment	(629,150)	(53,785)	-	(682,935)
Vehicles	(1,341,071)	(38,917)	49,250	(1,330,738)
Infrastructure	(2,696,732)	(720,662)	-	(3,417,394)
Internal Service Fund	(1,502,109)	(116,647)	-	(1,618,756)
	<u>(10,377,815)</u>	<u>(1,287,717)</u>	<u>49,250</u>	<u>(11,616,282)</u>
Governmental Activities Capital Assets, net	<u>\$ 31,178,592</u>	<u>\$ (125,417)</u>	<u>\$ -</u>	<u>\$ 31,053,175</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Asset - Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not Depreciated:				
Land	\$ 54,028	\$ -	\$ -	\$ 54,028
Capital Assets, being Depreciated:				
Senior Citizens Housing:				
Land Improvements	59,512	-	-	59,512
Buildings-Senior Citizens	438,399	8,697	-	447,096
Equipment-Senior Citizens	64,666	1,047	-	65,713
	<u>562,577</u>	<u>9,744</u>	<u>-</u>	<u>572,321</u>
Water & Sewer Fund:				
Buildings-Water Sewer	52,932	-	-	52,932
Infrastructure	9,947,817	1,272,023	-	11,219,840
Equipment	182,171	-	-	182,171
	<u>10,182,920</u>	<u>1,272,023</u>	<u>-</u>	<u>11,454,943</u>
Less: Accumulated Depreciation:				
Senior Citizens Housing:				
Land Improvements	(36,916)	(1,623)	-	(38,539)
Buildings-Senior Citizens	(213,608)	(12,162)	-	(225,770)
Equipment-Senior Citizens	(59,965)	(574)	-	(60,539)
	<u>(310,489)</u>	<u>(14,359)</u>	<u>-</u>	<u>(324,848)</u>
Water & Sewer Fund:				
Buildings-Water Sewer	(47,943)	(129)	-	(48,072)
Infrastructure	(4,339,278)	(70,828)	-	(4,410,106)
Equipment	(158,951)	(1,382)	-	(160,333)
	<u>(4,546,172)</u>	<u>(72,339)</u>	<u>-</u>	<u>(4,618,511)</u>
Business Activities				
Capital Assets, net	<u>\$ 5,942,864</u>	<u>\$ 1,195,069</u>	<u>\$ -</u>	<u>\$ 7,137,933</u>
Intangible Assets (Amortized over 40 years)				
Investment in Community:				
Sanitary/Storm Sewers:				
Cost	\$ 10,292,223	\$ -	\$ -	\$ 10,292,223
Accumulated Amortization	(2,066,338)	(244,402)	-	(2,310,740)
Intangible Assets, net	<u>\$ 8,225,885</u>	<u>\$ (244,402)</u>	<u>\$ -</u>	<u>\$ 7,981,483</u>
Depreciation expense was charged to functions of the primary government as follows:				
General Government	\$ 216,766			
Public Safety	76,688			
Public Works	752,949			
Recreation and Culture	124,667			
Charged though Internal Service Funds	116,647			
	<u>\$ 1,287,717</u>			
Business Type Activities:				
Water and Sewer	\$ 72,339			
Senior Citizen Housing	14,359			
Subtotal	<u>86,698</u>			
Amortization of Intangible	244,402			
Total per Financial Statement	<u>\$ 331,100</u>			

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Streets	\$ 232
	Water and Sewer	340
	Trust & Agency	1
		<u>573</u>

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Senior Citizen Housing Fund	\$ 30,000
General Fund	Capital Projects RZED	\$ 87,971
Library Fund	General Fund	18,000
Refuse Collection	General Fund	60,000
Local Street Fund	Major Street Fund	65,000
Total		<u>\$ 260,971</u>

Note, interfund balance due amounts represent unsettled amounts due, at balance sheet date.

Transfers represent the following:

Senior Citizens Housing Transfer – amount budgeted by City Council.

Local Streets from Major – amounts allowable under Act 51 to finance local improvements.

Refuse Collection from General Fund-assist with costs associated with refuse costs.

Library Fund from General fund-assist with costs associated with Library operations.

RZED Capital Projects Fund-reimburse general fund for prior construction costs

In addition, the RZED Capital Projects Fund transferred \$252,796 to DDA (Component Unit) to reimburse for prior period construction and debt service costs. On the Statement of Activities, this amount is 'netted' by the \$60,000 in City debt the DDA paid.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

D. Intangible Assets

The Oakland County Drain Commission has assessed the City of Clawson for the benefit of utilizing the newly constructed North Arm Relief Drain and the George W. Kuhn Drain. The total cost of the North Arm Relief Drain is \$14,830,305 of which \$2,718,357 (18.34%) is the City of Clawson's portion. The total cost to date of the George W. Kuhn Drain is \$119,690,000 of which the City of Clawson's portion is \$6,883,424 (5.6249%). The drains are being amortized over a period of 40 years beginning July 1, 2004.

North Arm Relief Drain	\$ 2,718,357
George W. Kuhn Drain	<u>7,573,866</u>
Total	10,292,223
Less: Accumulated Amortization	<u>(2,310,740)</u>
Net Intangible Assets	<u>\$ 7,981,483</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Balance</u> <u>Within 1 Year</u>
Gov. Activities:					
G.O. Bonds	\$ 20,385,000	\$ -	\$ 925,000	\$ 19,460,000	\$ 995,000
Act 99 Installment	2,659,819	296,662	145,118	2,811,363	208,514
	<u>23,044,819</u>	<u>296,662</u>	<u>1,070,118</u>	<u>22,271,363</u>	<u>1,203,514</u>
Compensated Absences	391,279	12,827	-	404,106	-
	<u>\$ 23,436,098</u>	<u>\$ 309,489</u>	<u>\$ 1,070,118</u>	<u>\$ 22,675,469</u>	<u>\$ 1,203,514</u>
Business Type Activities:					
G.O. Bonds	\$ 4,647,583	\$ -	\$ 367,929	\$ 4,279,654	\$ 379,956
SRF Revenue Bonds	2,090,332	999,562	155,000	2,934,894	160,000
Contract Debt	1,170,178	-	135,511	1,034,667	139,276
	<u>7,908,093</u>	<u>999,562</u>	<u>658,440</u>	<u>8,249,215</u>	<u>679,232</u>
Compensated Absences	27,451	4,501	-	31,952	-
	<u>\$ 7,935,544</u>	<u>\$ 1,004,063</u>	<u>\$ 658,440</u>	<u>\$ 8,281,167</u>	<u>\$ 679,232</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2014:

	<u>Number of</u> <u>Issues</u>	<u>Interest</u> <u>Rate</u>	<u>Maturing</u> <u>Through</u>	<u>Principal</u> <u>Outstanding</u>
Governmental Activities:				
General Obligation Bonds	4	3.50%-3.90%	2026	\$ 19,460,000
Act 99 Installment Loan	2	1.91%-2.8%	2028	2,811,363
Total Governmental Activities				<u>\$ 22,271,363</u>
Business Type Activities:				
G.O. Bonds	7	4.375-4.70%	2029	\$ 4,279,654
SRF Revenue Bonds	1	2.50%	2033	3,770,000
Less SRF Not Yet Drawn Down				(835,106)
Contract Debt	1	2.00%-5.00%	2022	1,034,667
Total Business Type Activities				<u>\$ 8,249,215</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2014 are as follows (net of interest subsidies discussed below):

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,203,514	\$ 806,195	\$ 679,232	\$ 227,434
2016	1,292,691	768,483	692,052	209,978
2017	1,331,985	726,762	711,750	192,138
2018	1,381,399	682,215	729,930	173,786
2019	1,425,939	634,778	748,486	154,933
2020-2024	6,815,666	2,444,865	3,329,491	528,765
2025-2029	7,520,169	1,128,689	1,240,849	226,296
2030	1,300,000	53,707	952,531	89,375
	<u>\$ 22,271,363</u>	<u>\$ 7,245,691</u>	<u>\$ 9,084,321</u>	<u>\$ 1,802,705</u>

Note: The above schedule for 'Business Activity' shows the future bond and interest payments due on *scheduled* debt activity. The SRF Revenue Bonds are in process of draw down from the State of Michigan. At the end of the City's fiscal year only \$2,934,894 of the authorized amount (\$3,925,000) were drawn down. The total above (\$9,084,321) reflects the total amount authorized by the State, while the schedule on the preceding page reflects the amounts actually and drawn down.

Interest Subsidies

The City issued two obligations that are intended to qualify for Federal interest rate subsidies. The Capital Improvement Bonds, Series 2010, are anticipated to qualify for the 45% interest rate subsidies under IRC 1400-U2 (Recovery Zone Economic Development Bonds), while the 2010 Unlimited General Obligation Improvement bonds, are anticipated to qualify for the 35% interest rate subsidies under IRC 54AA (Build America Bonds).

If the IRS rules that the City did not comply with the requirements of these code sections or the law is changed, the City would be responsible to pay all of the interest due on the obligations. During the fiscal year, the City received the interest subsidies as scheduled; however, the City has been informed by its financial advisor that the subsidies for the fiscal year ending June 30, 2015 maybe be reduced due to 'sequestration' automatic budget reductions, which went into effect at the beginning of January, 2013. It appears that future subsidies may be reduced due to future federal budget cuts.

The General Obligation Series 2010 bonds are unlimited tax obligation bonds, which mean that the City could choose to increase the millage rate approved by the voters to pay the non subsidized amounts.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

Capital Improvement G.O. taxable bonds are paid from general City of Clawson revenues, and the lack of the subsidy would likely require budgetary adjustments from existing resources. Provided below is a summary of the stated interest, and the credits:

	<u>Principal Due</u>	<u>Interest Due</u>	<u>Federal Subsidy</u>	<u>Net Due</u>
Capital Improvement Series 2010				
2015	\$ 60,000	\$ 65,840	\$ 29,628	\$ 36,212
2016	65,000	63,740	28,683	35,057
2017	65,000	61,140	27,513	33,627
2018	65,000	58,215	26,197	32,018
2019	70,000	55,095	24,793	30,302
2020-2024	370,000	219,770	98,897	120,874
2025--2029	430,000	108,190	48,686	59,505
2030	95,000	5,795	2,608	3,187
	<u>\$ 1,220,000</u>	<u>\$ 637,785</u>	<u>\$ 287,003</u>	<u>\$ 350,782</u>
2010 Unlimited General Obligation				
2015	\$ 165,000	\$ 323,000	\$ 113,050	\$ 209,950
2016	165,000	316,977	110,942	206,035
2017	165,000	309,800	108,430	201,370
2018	175,000	301,880	105,658	196,222
2019	180,000	293,130	102,596	190,535
2020-2024	1,010,000	1,307,249	457,537	849,712
2025--2029	3,490,000	1,041,092	364,382	676,710
	<u>\$ 5,350,000</u>	<u>\$ 3,893,128</u>	<u>\$ 1,362,595</u>	<u>\$ 2,530,533</u>

F. Long-Term Component Unit Advances

At June 30, 2014, the General Fund has an advance to the Downtown Development Authority in the amount of \$105,112. The advance is being repaid over the next 5 years with fixed rate of interest (1.72%), and scheduled principal repayments.

G. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year, and payable in eight installments through February. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

G. Property Taxes – Continued

The maximum authorized operating levy for the City is 15 mills. The City's tax levy for the 2013 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	10.7602
Refuse	2.1518
Library	1.3240
Voted Debt	7.1800
Voted Operating	<u>4.2398</u>
Total	<u>25.6558</u> mills

IV. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City hired before July 1999, except for employees that had opted out of the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2013.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2012 as follows:

General – Union	*
General Non – Union	*
Police	*

*Closed to new members – contributions expressed in fixed monthly dollar amounts

c. Annual Pension Cost

During the fiscal year ended June 30, 2014, the City's contributions totaling \$1,133,436 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2012.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The remaining unfunded liability for "closed plans" will be amortized over 20 years commencing with fiscal year beginning July 1, 2014. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Trend Information</u>				
Fiscal Year Ended <u>June 30,</u>	Valuation Date <u>Dec. 31</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2012	2010	1,018,356	100%	-0-
2013	2011	1,109,388	100%	-0-
2014	2012	1,133,436	100%	-0-

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost – Continued

The information presented above was determined as part of the actuarial valuations at the dates indicated.

2. Clawson Fire Department Defined Benefit Plan

a. Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

b. Plan Description.

Plan administration. The Clawson Fire Department Pension Board administers the Clawson Fire Department Defined Benefit Plan. – a single-employer defined benefit pension plan that provides pensions for all paid on call fire fighters. Management of the Clawson Fire Department Defined Benefit Plan is vested in the Clawson Fire Department Pension Board which consists of 40 members.

Plan Membership. At July 1, 2013, pension plan membership consisted of the following:

Inactive plan members or beneficiaries	
currently receiving benefits	14
Inactive plan members entitled to but	
not yet receiving benefits	1
Active plan members	<u>25</u>
	<u>40</u>

c. Contributions.

The authority to amend contribution requirements rests with the Clawson Fire Department Pension Board. The board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimate amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended June 30, 2014 the City contributed \$60,000.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Clawson Fire Department Defined Benefit Plan

d. Investment Policy. The pension plans' policy in regard to the allocation of invested assets is established and may amended by the Clawson Fire Department Pension Board by a majority vote of its members. It is the policy of the Clawson Fire Department Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2014.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	15%
Fixed income	35%
Real estate	0%
Cash	<u>0%</u>
Total	<u><u>100%</u></u>

e. Rate of return. For the year ended June 30, 2014 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.11 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the City

The components of the net pension liability of the City at July 1, 2013 (latest valuation) were as follows:

Total pension liability	\$ 3,245,753
Plan fiduciary net position	3,103,799
City's net pension liability (over funding)	<u>(141,954)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>104.6%</u></u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Clawson Fire Department Defined Benefit Plan - Continued

- f. Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	N/A
Salary increases	N/A
Investment rate of return	7.0 percent, net of pension plan Investment expense, including Inflation

Mortality rates were based on the 1994 Group Annuity Blended Table.

The long-term expected rate of return on pension plan investments is 7.0%.

- g. Discount rate. The discount rate used to measure the total pension liability is not available.
- h. Sensitivity of the net pension liability to changes in the discount rate. Data is not available.
- i. Plan benefits. The plan presently provides retirement as well as death benefits. Pension benefits vest after five years of total service, for employees hired before July 1, 2009, and ten years for all others. Employees who retire at age 55 are entitled to a monthly pension payable for life in an amount equal to \$45.00 multiplied by the years of service. Death benefits are based on the present value of accrued benefits per participant and are provided regardless of years of service. The City makes annual contributions to the Plan equal to the amount determined by an actuary. Employee contributions are not allowed.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

3. City of Clawson Employees Defined Contribution Plan

a. Plan Description

In April 1999, the City established a defined contribution plan for employees hired after July 1, 1999. The plan is administered by the Michigan Municipal Employees' Retirement System (MMERS) who sponsors the prototype plan. Amendments are developed by MMERS and submitted to the City Council for approval. A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Contributions made by the City fully vest after 7 years.

b. Contributions Required and Contributions Made

The City is required to contribute an amount equal to 10% of the employee's gross earnings. Employee contributions on a pretax basis are permitted but not required. The City will match up to 3% of an employee's contribution. During the year, the City's required and actual contributions amounted to \$203,196; the employee contributions were \$52,814.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

Plan Description – The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts. Currently, fifty-four retired employees receive this benefit. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$435,221.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance.

Funding Progress – For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 1,035,006
Interest on the prior year's net OPEB obligation	-
Less: adjustment to the annual required contribution	-
Annual OPEB cost	<u>1,035,006</u>
Amounts contributed:	
Payments of current premiums	(435,221)
Advance funding	-
Increase in net OPEB obligation	<u>599,785</u>
OPEB obligation – Beginning of year	<u>1,454,924</u>
OPEB obligation – End of year	<u>\$ 2,054,709</u>

The OPEB obligation is recorded as follows:

Governmental activities	2,054,709
Business-type activities	-
Total	<u>\$ 2,054,709</u>

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>OPEB Costs</u>	<u>Percentage</u> <u>of ARC</u> <u>Contributed</u>	<u>Net</u> <u>Obligation</u>
6/30/2012	6/30/2011	\$ 852,461	\$ 852,461	59.8%	\$ (948,515)
6/30/2013	6/30/2012	\$ 985,720	\$ 985,720	51.4%	\$(1,454,924)
6/30/2014	6/30/2013	\$1,035,006	\$1,035,006	42.0%	\$(2,054,709)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

Valuation as of:	<u>June 30, 2013</u>
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability	13,369,446
Unfunded AAL	13,369,446
Funded Ratio	0.0%

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

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

In the June 30, 2013 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

C. Risk Management

The City of Clawson is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

C. Risk Management – Continued

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Clawson and the pools to which it belongs in any of the past three fiscal years.

D. Jointly Governed Organizations

1. Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority (S.O.C.R.R.A.). The City appoints one member of the Authority's governing board, who then approves the annual budget. The board is made up of representatives from twelve member municipalities. These include Berkley, Beverly Hills, Birmingham, Clawson, Ferndale, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak, and Troy. The City has a 4.54% participation in the Authority.

2. Water Authority

The City is a member of the Southeastern Oakland County Water Authority (S.O.C.W.A.). The City appoints one member to the Authority's governing board, who then approves the annual budget. The board is made up of representatives from eleven member municipalities. These include Berkley, Beverly Hills, Bingham Farms, Birmingham, Clawson, Huntington Woods, Lathrup Village, Pleasant Ridge, Royal Oak, Southfield and Southfield Township. The City has a 4.05% participation in the Authority. The debt of the Authority is being financed by water user fees.

E. Contingencies

The City entered into an agreement with the City of Royal Oak to improve Crooks Road. While the project was completed several years ago, the total cost and Clawson's share of the project cost is unknown and the City has received no request for payment. Additionally, in 1998, the City entered into an agreement with the Road Commission for improvements to Fourteen Mile Road. The total project cost was estimated to be \$1,075,870 of which Clawson's portion was budgeted at \$368,000. The project was completed as of June 30, 1999, but the total project cost, and the City's remaining obligations, if any is unknown.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

F. Up Coming Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued two new pronouncements in June 2013, GASB Statement No. 67, *Financial Reporting for Pension Plans*, which amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, which amends GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures*. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and measuring and recognizing liabilities and expenses. GASB No. 68 will require employers with defined benefit pension plans to recognize their unfunded pension benefit obligation as a liability on the government-wide and proprietary financial statements. These new standards will result in additional disclosures and required and supplemental information, and will be effective beginning with the City’s fiscal year ended June 30, 2015.

G. Self Insured Health Insurance

Effective January 1, 2014, the City terminated its traditional health and dental insurance coverage for substantially all of its employees and retirees, and implemented a self insured plan administered by Blue Cross and Blue Shield of Michigan. The plan has two levels of “stop loss” re-insurance coverage to help mitigate potential claims.

- \$40,000 maximum per employee per plan year
- \$113,000 per month

The following is a summary of the City’s liability for claims incurred but not reported.

Incurred claims expenses	\$ 291,977
Less payments during the six months	<u>(239,477)</u>
Claims incurred but not reported	<u>\$ 52,500</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

G. Subsequent Events

1. As discussed in Note III. E, the City was informed by its financial advisor that that interest subsidies under IRC 1400-02 and IRC 54 AA may not occur for the ensuing fiscal year due to federal budget reductions. The advisor also warns that future subsidies may not be available as well. The remaining federal subsidies are described in Note III. E.
2. On October 17, 2014, The City issued \$8,940,000 in Unlimited Tax Obligation Bonds to finance capital improvements and to refund the outstanding bonds of the City's 2010 Unlimited Tax Obligation General obligation improvement Bonds. The capital improvement portion of this obligation is expected to be paid from an additional millage (Park Improvement) approved by the voters on August 5, 2014. This millage authorizes the City to levy additional taxes necessary to pay the annual debt service costs of up to \$3,810,000 of debt issued for park improvements.
3. Subsequent events were evaluated through October 17, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2014

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	11,689,112	19,615,059	7,925,947	60%	2,062,345	384%
12/31/05	11,645,611	20,764,383	9,118,772	56%	1,797,855	507%
12/31/06	11,685,908	21,083,175	9,397,267	55%	1,806,265	520%
12/31/07	11,863,343	21,384,036	9,520,693	55%	1,811,247	526%
12/31/08	11,535,295	22,526,522	10,991,227	51%	1,750,947	628%
12/31/09	11,294,978	22,220,273	10,925,295	51%	1,541,458	709%
12/31/10	11,127,900	22,541,775	11,413,875	49%	1,595,797	715%
12/31/11	11,100,236	22,841,140	11,740,904	49%	1,392,751	843%
12/31/12	10,959,414	23,182,320	12,222,906	47%	1,087,486	1124%
12/31/13	10,907,534	23,440,966	12,533,432	47%	964,678	1129%

Additional information as of December 31, 2013, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	City of Clawson has elected option "B" – which allows "closed" plans to amortize the unfunded on an accelerated method – the expected amortization which commences in fiscal year 7/1/13, is 20 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50%
Includes inflation at 2.0%	
Cost of living adjustments	None

Note: Schedule of Changes in City's Net Pension Liability and Related Ratios are not presented as the information is not available. MERS indicates information will be available for 2015.

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2014

Fire Department Defined Benefit Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Modified Aggregate (b)	Excess Assets Over (Under) AAL (b-a)	Funded Ratio (a/b)
7/1/01	476,761	1,300,528	(823,767)	37%
7/1/02	659,108	1,790,984	(1,131,876)	37%
7/1/03	939,097	1,935,950	(996,853)	49%
7/1/04	1,302,908	2,503,944	(1,201,036)	52%
7/1/05	1,695,905	3,023,387	(1,327,482)	56%
7/1/06	2,579,735	3,413,211	(833,476)	75%
7/1/08	2,589,045	3,812,660	(1,223,615)	68%
7/1/09	1,950,413	2,770,446	(820,033)	70%
7/1/11	2,890,673	2,962,741	(72,068)	98%
7/1/13	3,245,753	3,103,799	141,954	105%

Due to the part-time nature of volunteer firemen, all payroll based required disclosures are not deemed relevant.

Additional information as of July 1, 2013, the latest actual valuation, follows:

Actuarial cost method	Individual Entry Age
Amortization method	Level Dollar
Amortization period	10 years
Actuarial asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	Not applicable
Post retirement benefit increases	None
Inflation	None

Note: Schedule of Changes in City's Net Pension Liability and Related Ratios are not presented as the information is not available. The City's actuarial firm indicates information will be available for 2015.

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 4,595,000	\$ 4,580,000	\$ 4,574,359	\$ (5,641)
Penalties and Interest	42,000	33,000	34,317	1,317
Property Tax Administration Fee	172,000	172,000	172,937	937
Licenses and Permits	157,600	167,700	171,782	4,082
Intergovernmental – Federal	-	-	74,993	74,993
Intergovernmental – State	996,490	1,046,350	1,036,219	(10,131)
Intergovernmental – Local	24,000	24,000	26,672	2,672
Charges for Services	416,700	451,300	442,511	(8,789)
Fines and Forfeitures	154,500	168,500	165,444	(3,056)
Franchise Fees	190,000	190,000	212,553	22,553
Interest Earnings	24,000	31,000	29,383	(1,617)
Other Revenues	93,300	181,000	100,377	(80,623)
Total Revenues	6,865,590	7,044,850	7,041,547	(3,303)
Expenditures:				
General Government:				
City Council	18,110	18,110	16,855	1,255
City Manager	140,395	131,645	128,769	2,876
Elections	12,475	14,025	13,797	228
Finance	54,245	70,975	70,564	411
Assessor	88,900	88,900	85,799	3,101
Attorney	117,000	117,000	116,405	595
Clerk	187,415	177,780	175,687	2,093
Treasurer	136,380	134,440	121,685	12,755
City Hall	272,750	283,675	272,241	11,434
Planning Commission	90,900	72,900	65,069	7,831
Total General Government	1,118,570	1,109,450	1,066,871	42,579
Public Safety:				
Police	2,125,320	2,028,770	1,993,086	35,684
Fire	207,440	208,715	206,567	2,148
Inspection and Engineering	293,890	245,740	238,078	7,662
Total Public Safety	2,626,650	2,483,225	2,437,731	45,494
Public Works:				
Department of Public Works	492,000	499,560	496,006	3,554
Street Lighting	220,000	225,000	222,424	2,576
Total Public Works	712,000	724,560	718,430	6,130
Health and Welfare:				
Senior Citizens	139,225	137,175	135,934	1,241
Youth Programs	6,030	6,200	6,200	-
Total Health and Welfare	145,255	143,375	142,134	1,241
Recreation and Cultural:				
Parks	255,345	259,770	255,280	4,490
Recreation	331,380	318,530	285,824	32,706
Historical	22,670	29,070	28,986	84
Total Recreation and Cultural	609,395	607,370	570,090	37,280

(Continued)

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures: (continued)				
Other Functions:				
Unemployment	\$ 5,000	7,200	673	\$ 6,527
Retiree Health Insurance	784,650	873,400	831,214	42,186
Retiree MERS Post Retirement Costs	586,825	602,000	600,873	1,127
Non Departmentalized Fringe Benefits	-	204,760	202,342	2,418
Cable TV/Internet	30,310	28,560	24,975	3,585
Other	53,500	110,600	87,377	23,223
Total Other Functions	<u>1,460,285</u>	<u>1,826,520</u>	<u>1,747,454</u>	<u>79,066</u>
Debt Service	<u>219,595</u>	<u>219,595</u>	<u>219,593</u>	<u>2</u>
Capital Outlay	<u>136,000</u>	<u>175,100</u>	<u>204,350</u>	<u>(29,250)</u>
Total Expenditures	<u>7,027,750</u>	<u>7,289,195</u>	<u>7,106,653</u>	<u>182,542</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(162,160)</u>	<u>(244,345)</u>	<u>(65,106)</u>	<u>179,239</u>
Other Financing Sources (Uses):				
Transfers In	30,000	30,000	117,971	87,971
Transfers (Out)	<u>(72,000)</u>	<u>(83,000)</u>	<u>(78,000)</u>	<u>5,000</u>
Total Other Financing Sources (Uses)	<u>(42,000)</u>	<u>(53,000)</u>	<u>39,971</u>	<u>92,971</u>
Net Change in Fund Balance	(204,160)	(297,345)	(25,135)	272,210
Fund Balance – Beginning	<u>1,685,546</u>	<u>1,685,546</u>	<u>1,685,546</u>	<u>-</u>
Fund Balance – Ending	<u>\$ 1,481,386</u>	<u>\$ 1,388,201</u>	<u>\$ 1,660,411</u>	<u>\$ 272,210</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects RZED Cap. Imp. Bonds</u>	<u>Library Unlim. G.O. Bonds Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 406,386	\$ -	\$ 16,571	\$ 422,957
Receivables (net of Allowance for Uncollectibles)	29,693	-	-	29,693
Due from State	52,523	-	-	52,523
Prepaid Expenditures	<u>14,968</u>	<u>-</u>	<u>-</u>	<u>14,968</u>
Total Assets	<u>\$ 503,570</u>	<u>\$ -</u>	<u>\$ 16,571</u>	<u>\$ 520,141</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 68,431	\$ -	\$ -	\$ 68,431
Due to Other Funds	232	-	-	232
Accrued and Other Liabilities	12,044	-	-	12,044
Total Liabilities	<u>80,707</u>	<u>-</u>	<u>-</u>	<u>80,707</u>
Fund Balance:				
Non Spendable:				
Prepaid Expenditures	14,968	-	-	14,968
Restricted:				
Special Revenue Funds	407,895	-	-	407,895
Debt Service	-	-	16,571	16,571
Capital Projects	-	-	-	-
Total Fund Balance	<u>422,863</u>	<u>-</u>	<u>16,571</u>	<u>439,434</u>
Total Liabilities and Fund Balance	<u>\$ 503,570</u>	<u>\$ -</u>	<u>\$ 16,571</u>	<u>\$ 520,141</u>

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects RZED Cap. Imp. Bonds</u>	<u>Library Unlim. G.O. Bonds Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Property Taxes	\$ 1,067,934	\$ -	\$ 174,868	\$ 1,242,802
Intergovernmental-State	735,038	-	-	735,038
Intergovernmental-Federal	3,736	-	-	3,736
Interest	337	432	184	953
Other	171,551	-	-	171,551
Total Revenues	<u>1,978,596</u>	<u>432</u>	<u>175,052</u>	<u>2,154,080</u>
Expenditures:				
Highways, Streets, Sidewalks, and other Maintenance	968,051	-	-	968,051
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	140,000	140,000
Interest and Other Charges	-	-	40,767	40,767
Sanitation	731,217	-	-	731,217
Recreation and Culture	478,052	-	-	478,052
Total Expenditures	<u>2,177,320</u>	<u>-</u>	<u>180,767</u>	<u>2,358,087</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(198,724)</u>	<u>432</u>	<u>(5,715)</u>	<u>(204,007)</u>
Other Financing Sources (Uses):				
Transfers In	143,000	-	-	143,000
Transfers Out	(65,000)	(87,971)	-	(152,971)
Transfers to Component Unit	-	(252,796)	-	(252,796)
Total Other Financing Sources (Uses)	<u>78,000</u>	<u>(340,767)</u>	<u>-</u>	<u>(262,767)</u>
Net Change in Fund Balances	(120,724)	(340,335)	(5,715)	(466,774)
Fund Balance – July 1	<u>543,587</u>	<u>340,335</u>	<u>22,286</u>	<u>906,208</u>
Fund Balance – June 30	<u>\$ 422,863</u>	<u>\$ -</u>	<u>\$ 16,571</u>	<u>\$ 439,434</u>

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Refuse Collection</u>	<u>Sidewalk</u>	<u>Total Nonmajor Special Revenue Funds</u>
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 206,624	\$ 130,092	\$ 22,267	\$ 41,082	\$ 6,321	\$ 406,386
Receivables (net of Allowance for Uncollectibles)	-	-	-	1,590	28,103	29,693
Due from State	37,270	15,253	-	-	-	52,523
Prepaid Expenditures	<u>11,261</u>	<u>18</u>	<u>3,689</u>	<u>-</u>	<u>-</u>	<u>14,968</u>
Total Assets	<u>\$ 255,155</u>	<u>\$ 145,363</u>	<u>\$ 25,956</u>	<u>\$ 42,672</u>	<u>\$ 34,424</u>	<u>\$ 503,570</u>
<u>LIABILITIES AND FUND BALANCE</u>						
Liabilities:						
Accounts Payable	\$ 7,049	\$ 13,851	\$ 13,211	\$ 33,666	\$ 654	\$ 68,431
Due to Other Funds	232	-	-	-	-	232
Accrued Liabilities	<u>2,185</u>	<u>2,156</u>	<u>7,703</u>	<u>-</u>	<u>-</u>	<u>12,044</u>
Total Liabilities	<u>9,466</u>	<u>16,007</u>	<u>20,914</u>	<u>33,666</u>	<u>654</u>	<u>80,707</u>
Fund Balance:						
Non Spendable:						
Prepaid Expenditures	11,261	18	3,689	-	-	14,968
Restricted:						
Special Revenue Funds	<u>234,428</u>	<u>129,338</u>	<u>1,353</u>	<u>9,006</u>	<u>33,770</u>	<u>407,895</u>
Total Fund Balance	<u>245,689</u>	<u>129,356</u>	<u>5,042</u>	<u>9,006</u>	<u>33,770</u>	<u>422,863</u>
Total Liabilities and Fund Balance	<u>\$ 255,155</u>	<u>\$ 145,363</u>	<u>\$ 25,956</u>	<u>\$ 42,672</u>	<u>\$ 34,424</u>	<u>\$ 503,570</u>

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2014

	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Refuse Collection</u>	<u>Sidewalk</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues:						
Taxes	\$ -	\$ -	\$ 409,577	\$ 658,357	\$ -	\$ 1,067,934
Intergovernmental-State	507,912	220,719	6,407	-	-	735,038
Intergovernmental-Federal	-	-	3,736	-	-	3,736
Interest Income	106	59	66	106	-	337
Other	-	3,000	37,452	19,074	112,025	171,551
Total Revenues	<u>508,018</u>	<u>223,778</u>	<u>457,238</u>	<u>677,537</u>	<u>112,025</u>	<u>1,978,596</u>
Expenditures:						
Highways, Streets, Sidewalks and Other Maintenance	488,083	319,869	-	-	160,099	968,051
Capital Outlay	-	-	-	-	-	-
Sanitation	-	-	-	731,217	-	731,217
Recreation and Culture	-	-	478,052	-	-	478,052
Total Expenditures	<u>488,083</u>	<u>319,869</u>	<u>478,052</u>	<u>731,217</u>	<u>160,099</u>	<u>2,177,320</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,935</u>	<u>(96,091)</u>	<u>(20,814)</u>	<u>(53,680)</u>	<u>(48,074)</u>	<u>(198,724)</u>
Other Financing Sources (Uses):						
Operating Transfers In	-	65,000	18,000	60,000	-	143,000
Operating Transfers Out	(65,000)	-	-	-	-	(65,000)
Total Other Financing Sources (Uses)	<u>(65,000)</u>	<u>65,000</u>	<u>18,000</u>	<u>60,000</u>	<u>-</u>	<u>78,000</u>
Net Change in Fund Balance	(45,065)	(31,091)	(2,814)	6,320	(48,074)	(120,724)
Fund Balance – July 1	<u>290,754</u>	<u>160,447</u>	<u>\$ 7,856</u>	<u>\$ 2,686</u>	<u>\$ 81,844</u>	<u>543,587</u>
Fund Balance – June 30	<u>\$ 245,689</u>	<u>\$ 129,356</u>	<u>\$ 5,042</u>	<u>\$ 9,006</u>	<u>\$ 33,770</u>	<u>\$ 422,863</u>

