

Audited Financial Statements

City of Clare  
Clare and Isabella Counties, Michigan

*Year Ended June 30, 2019  
with Report of Independent Auditors*



City of Clare

Audited Financial Statements

Year Ended June 30, 2019

**Contents**

Report of Independent Auditors.....1

Required Supplementary Information

Management’s Discussion and Analysis .....4

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position .....12

Statement of Activities.....13

Fund Financial Statements

Governmental Funds Balance Sheet .....14

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position .....15

Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances .....16

Reconciliation of the Governmental Funds Statement of  
Revenues, Expenditures, and Changes in Fund Balances  
to the Statement of Activities.....17

Proprietary Funds Statement of Net Position.....18

Reconciliation of the Net Position on the Statement of Net  
Position for Enterprise Funds to the Net Position of  
Business-Type Activities on the Statement of Net Position .....19

Proprietary Funds Statement of Revenues, Expenses, and  
Changes in Net Position.....20

Reconciliation of the Statement of Revenues, Expenses, and  
Changes in Net Position of Enterprise Funds to the  
Statement of Activities.....21

Proprietary Funds Statement of Cash Flows.....22

Statement of Fiduciary Net Position .....23

Component Units Statement of Net Position .....24

Reconciliation of the Component Units Balance Sheet  
to the Component Units Statement of Net Position .....25

City of Clare

Audited Financial Statements

Year Ended June 30, 2019

**Contents**

Component Units Statement of Activities .....	26
Reconciliation of the Component Units Statement of Revenues, Expenditures, and Changes in Fund Balances to the Component Units Statement of Activities.....	27
Notes to Financial Statements.....	28
Required Supplementary Information	
Defined Benefit Pension Plan (MERS)	
Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios.....	55
Schedule of Employer’s Contributions.....	56
Budgetary Comparison Schedule – General Fund.....	57
Budgetary Comparison Schedule – Major Streets Fund.....	59
Other Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds .....	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	61
Combining Statement of Net Position – Internal Service Funds .....	62
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds.....	63
Combining Statement of Cash Flows – Internal Service Funds .....	64
Combining Balance Sheet – Fiduciary Funds.....	65
Combining Balance Sheet – Component Units .....	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Component Units.....	67
Reports Required by <i>Government Auditing Standards</i>	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	68

## Report of Independent Auditors

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The other supplementary information (identified in the table of contents) is presented for purposes of additional analysis and is not a required part of the financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2019, on our consideration of the City of Clare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clare's internal control over financial reporting and compliance.

*Andrews Hooper Paulik PLC*

Midland, Michigan  
December 2, 2019

# City of Clare

## Management's Discussion and Analysis

June 30, 2019

This discussion and analysis of the City of Clare's financial performance provides an overview of the City's financial activities for the year that ended on June 30, 2019. Please read it in conjunction with the financial statements following this section.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent year by \$17,383,426 (net position). Of this amount, \$1,859,179 represents negative unrestricted net position. The negative unrestricted net position results from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- The City's total net position decreased by \$140,136.
- At the close of the current year, the City's governmental funds reported combined fund balances of \$1,388,290, a decrease of \$17,339 in comparison with the prior year. Approximately 12% of this amount, which is \$168,619, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unrestricted fund balance (the total of committed, assigned, and unassigned components of fund balance) for the General Fund was \$469,240, or approximately 15% of total General Fund expenditures.

### **Overview of the Financial Statements**

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

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

# City of Clare

## Management's Discussion and Analysis

June 30, 2019

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

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

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

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

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

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



## City of Clare

### Management's Discussion and Analysis

June 30, 2019

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

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

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

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

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

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

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

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

## City of Clare

### Management's Discussion and Analysis

June 30, 2019

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

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

#### Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,383,426 at the close of the most recent year.

#### City of Clare's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current assets	\$ 1,505,819	\$ 1,490,751	\$ 1,458,981	\$ 1,486,611	\$ 2,964,800	\$ 2,977,362
Capital assets, net	14,191,396	14,022,631	9,568,190	9,730,684	23,759,586	23,753,315
Total assets	15,697,215	15,513,382	11,027,171	11,217,295	26,724,386	26,730,677
<b>Deferred outflows of resources</b>	464,732	241,268	114,734	54,042	579,466	295,310
<b>Liabilities</b>						
Current liabilities	381,197	390,750	240,202	180,433	621,399	571,183
Long-term liabilities	5,128,167	4,730,312	3,989,946	3,963,129	9,118,113	8,693,441
Total liabilities	5,509,364	5,121,062	4,230,148	4,143,562	9,739,512	9,264,624
<b>Deferred inflows of resources</b>	145,093	194,284	35,821	43,517	180,914	237,801
<b>Net position</b>						
Invested in capital assets, net of related debt	11,983,493	11,901,461	6,218,236	6,270,730	18,201,729	18,172,191
Restricted	827,057	702,084	213,819	180,960	1,040,876	883,044
Unrestricted	(2,303,060)	(2,164,241)	443,881	632,568	(1,859,179)	(1,531,673)
Total net position	\$10,507,490	\$10,439,304	\$ 6,875,936	\$ 7,084,258	\$17,383,426	\$17,523,562

The largest portion of the City's net position 106% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

# City of Clare

## Management's Discussion and Analysis

June 30, 2019

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining amount of (\$1,859,179) represents negative unrestricted net position created by recording the net pension obligation as required by GASB 68.

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

### City of Clare's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 742,160	\$ 878,621	\$ 1,552,570	\$ 1,521,780	\$ 2,294,730	\$ 2,400,401
Operating grants and contributions	570,409	573,793	215,962	147,577	786,371	721,370
Capital grants and contributions	1,980	1,239,129	990	105,196	2,970	1,344,325
General revenues:						
Property taxes and fees	1,833,306	1,806,275	-	-	1,833,306	1,806,275
Grants and contributions not restricted to programs	523,219	464,713	-	-	523,219	464,713
Interest earnings	16,191	13,343	7,212	5,610	23,403	18,953
Gain on sale of assets	18,545	30,650	-	-	18,545	30,650
Miscellaneous	18,420	14,401	3,773	11,259	22,193	25,660
Total revenues	3,724,230	5,020,925	1,780,507	1,791,422	5,504,737	6,812,347
<b>Expenses</b>						
General government	1,022,070	1,106,395	-	-	1,022,070	1,106,395
Public safety	1,145,795	1,107,575	-	-	1,145,795	1,107,575
Public works	858,607	727,112	-	-	858,607	727,112
Community development	35,751	21,059	-	-	35,751	21,059
Recreation and culture	532,802	532,067	-	-	532,802	532,067
Interest on long-term debt	61,019	67,331	-	-	61,019	67,331
Sewer	-	-	1,112,854	1,161,073	1,112,854	1,161,073
Water	-	-	875,975	738,687	875,975	738,687
Total expenses	3,656,044	3,561,539	1,988,829	1,899,760	5,644,873	5,461,299
Change in net position	68,186	1,459,386	(208,322)	(108,338)	(140,136)	1,351,048
Net position-beginning	10,439,304	8,979,918	7,084,258	7,192,596	17,523,562	16,172,514
Net position-ending	\$10,507,490	10,439,304	\$ 6,875,936	\$ 7,084,258	\$17,383,426	\$17,523,562

## City of Clare

### Management's Discussion and Analysis

June 30, 2019

**Governmental Activities.** During the current year, net position for governmental activities increased \$68,186 from the prior year for an ending balance of \$10,507,490. This increase was the result of a variety of factors.

**Business-Type Activities.** During the current year, net position for business-type activities decreased \$208,322 from the prior year for an ending balance of \$6,875,936. The current year decrease was due primarily to an increase in personnel, operating and repair expenses, and pension liabilities.

#### **Financial Analysis of Governmental Funds**

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

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

At June 30, 2019, the City's governmental funds reported combined fund balances of \$1,388,290, a decrease of \$17,339 in comparison with the prior year. Approximately 12% of this amount constitutes unassigned fund balance of \$168,619, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$84,418), 2) legally required to be maintained intact (\$492,753), 3) restricted for particular purposes (\$334,304), or 4) assigned for particular purposes (\$308,196).

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$168,619, while total fund balance decreased to \$744,815. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 5% of total General Fund expenditures, while total fund balance represents approximately 24% of that same amount.

The fund balance of the City's General Fund decreased by \$137,179 during the current year. Overall revenues decreased \$1,049,167 and expenditures decreased by \$1,267,711 compared to the prior year.

## City of Clare

### Management's Discussion and Analysis

June 30, 2019

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Sewer Fund at the end of the year was \$278,949 and for the Water Fund was (\$76,803). The total decrease in net position for the Sewer Fund was \$145,033; while the Water Fund's net position decreased by \$36,715. As noted earlier in the discussion of business-type activities, the change in net position for the Sewer Fund and Water Fund results from increased costs (including increases in the net pension liabilities) and reduction of debt.

#### **General Fund Budgetary Highlights**

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

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

#### **Capital Assets and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019 was \$23,759,586 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and the sewer and water systems. The total increase in capital assets for the current fiscal year was less than 1%.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,379,799	\$ 4,387,599	\$ 53,389	\$ 53,389	\$ 4,433,188	\$ 4,440,988
Land improvements	4,219,500	4,162,674	41,954	31,540	4,261,454	4,194,215
Buildings	1,430,135	1,521,432	1,370,627	1,440,756	2,800,762	2,962,188
Equipment	485,170	446,820	1,117,183	1,163,303	1,602,353	1,610,123
Vehicles	1,116,390	1,050,763	-	-	1,116,390	1,050,763
System	-	-	6,883,735	7,003,044	6,883,735	7,003,045
Construction in progress	2,560,402	2,453,343	101,302	38,652	2,661,704	2,491,993
	<b>\$14,191,396</b>	\$14,022,631	<b>\$ 9,568,190</b>	\$ 9,730,684	<b>\$23,759,586</b>	\$23,753,315

## City of Clare

### Management's Discussion and Analysis

June 30, 2019

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,557,857. Of this amount, \$4,664,954 is debt backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises installment purchase contracts.

#### City of Clare's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	<b>\$1,315,000</b>	\$1,375,000	<b>\$1,051,000</b>	\$1,114,000	<b>\$ 2,366,000</b>	\$ 2,489,000
Revenue bonds	-	-	<b>2,298,954</b>	2,345,954	<b>2,298,954</b>	2,345,954
Special assessment bonds	-	-	-	-	-	-
Installment purchase contracts	<b>892,903</b>	746,170	-	-	<b>892,903</b>	746,170
	<b>\$2,207,903</b>	\$2,121,170	<b>\$3,349,954</b>	\$3,459,954	<b>\$5,557,857</b>	\$5,581,124

The City's total debt decreased by approximately \$23,000, or 1.0%, during the current year. The reason for the decrease is due to the City paying off the MMCAA Installment loan related to the railroad. Also, the principal payments made in the current year were greater than the addition of a new installment loan for the purchase of a street sweeper.

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

Revenues and expenditures for 2020-2022 are projected to increase 2% per year in each category within General Governmental Activities, slightly more within Business-Type Activities. These assumptions are based upon historical revenue and expense data that has been accumulated and extensively analyzed including changes in property taxation laws, state revenue sharing, and other regulatory changes affecting the City. The City has also, since the start of the Great Recession, actively pursued cost containment efforts and simultaneously expanded its property tax base. The economic challenges of the past decade have limited and severely hampered municipal governmental entities. However, during this timeframe, the City has renegotiated all of its outstanding debt to take advantage of historically-low interest rates saving hundreds of thousands in interest expenses and simultaneously and strategically implemented growth initiatives to be fully prepared to grow with the recovering economy.

#### Requests for Information

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

# City of Clare

## Statement of Net Position

June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 254,121	\$ 85,538	\$ 339,659	\$ 43,892
Investments	960,000	540,000	1,500,000	-
Investments held by trustee	205,088	-	205,088	-
Accounts receivable, net	73,665	307,980	381,645	-
Accrued interest receivable	4,739	2,666	7,405	-
Assessments receivable, net	1,543	2,773	4,316	-
Internal balances	(241,735)	241,735	-	-
Due from other governmental units	127,073	-	127,073	-
Inventory	50,919	50,454	101,373	-
Prepaid items	70,406	14,016	84,422	-
Restricted cash and cash equivalents	-	213,819	213,819	-
Capital assets, net:				
Assets not being depreciated	6,940,201	154,691	7,094,892	108,126
Assets being depreciated	7,251,195	9,413,499	16,664,694	259,855
<b>Total assets</b>	<b>15,697,215</b>	<b>11,027,171</b>	<b>26,724,386</b>	<b>411,873</b>
<b>Deferred outflows of resources</b>				
Related to pension	464,732	114,734	579,466	-
<b>Liabilities</b>				
Accounts payable	49,141	78,140	127,281	227
Accrued liabilities	52,661	17,649	70,310	-
Accrued interest payable	25,882	14,541	40,423	1,478
Due to other governmental units	22,468	-	22,468	-
Deposits and other liabilities	1,225	13,872	15,097	-
Unearned revenue	87,936	-	87,936	-
Long-term debt:				
Due in one year	141,883	116,000	257,883	29,000
Due in more than one year	2,066,020	3,233,954	5,299,974	171,000
Net pension liability	3,062,148	755,992	3,818,140	-
<b>Total liabilities</b>	<b>5,509,364</b>	<b>4,230,148</b>	<b>9,739,512</b>	<b>201,705</b>
<b>Deferred inflows of resources</b>				
Related to pension	145,093	35,821	180,914	-
<b>Net position</b>				
Invested in capital assets, net of related debt	11,983,493	6,218,236	18,201,729	167,981
Restricted for:				
Landfill postclosure care	205,088	-	205,088	-
Cemetery perpetual care	287,665	-	287,665	-
Streets and highways	334,304	-	334,304	-
Debt service	-	213,819	213,819	37,578
Community development	-	-	-	4,609
Unrestricted	(2,303,060)	443,881	(1,859,179)	-
<b>Total net position</b>	<b>\$ 10,507,490</b>	<b>\$ 6,875,936</b>	<b>\$ 17,383,426</b>	<b>\$ 210,168</b>

*See accompanying notes.*

City of Clare

Statement of Activities

Year Ended June 30, 2019

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
<b>Governmental activities:</b>								
General government	\$ 1,022,070	\$ 148,608	\$ 2,980	\$ -	\$ (870,482)		\$ (870,482)	
Public safety	1,145,795	238,770	5,860	-	(901,165)		(901,165)	
Public works	858,607	206,756	487,995	990	(162,866)		(162,866)	
Community development	35,751	-	-	-	(35,751)		(35,751)	
Recreation and culture	532,802	148,026	73,574	990	(310,212)		(310,212)	
Interest on long-term debt	61,019	-	-	-	(61,019)		(61,019)	
Total governmental activities	3,656,044	742,160	570,409	1,980	(2,341,495)		(2,341,495)	
<b>Business-type activities:</b>								
Sewer	1,112,854	929,728	13,767	495		\$ (168,864)	(168,864)	
Water	875,975	622,842	202,195	495		(50,443)	(50,443)	
Total business-type activities	1,988,829	1,552,570	215,962	990		(219,307)	(219,307)	
Total primary government	\$ 5,644,873	\$ 2,294,730	\$ 786,371	\$ 2,970		(219,307)	(2,560,802)	
<b>Component units:</b>								
Downtown Development Authority	53,036	-	10,144	-				\$ (42,892)
Local Development Finance Authority	4,148	-	-	-				(4,148)
Brownfield Redevelopment Authority	-	-	-	-				-
Total component units	\$ 57,184	\$ -	\$ 10,144	\$ -				(47,040)
<b>General revenues:</b>								
Property taxes and related fees					1,833,306	-	1,833,306	91,352
Grants and contributions not restricted to specific programs					523,219	-	523,219	-
Interest earnings					16,191	7,212	23,403	104
Gain on sale of assets					18,545	-	18,545	-
Miscellaneous					18,420	3,773	22,193	-
Total general revenues					2,409,681	10,985	2,420,666	91,456
Change in net position					68,186	(208,322)	(140,136)	44,416
Net position-beginning					10,439,304	7,084,258	17,523,562	165,752
Net position-ending					\$ 10,507,490	\$ 6,875,936	\$ 17,383,426	\$ 210,168

See accompanying notes.



City of Clare

Governmental Funds Balance Sheet

June 30, 2019

	General	Major Street	Other Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 137,724	\$ 32,192	\$ 40,883	\$ 210,799
Investments	400,000	170,000	325,000	895,000
Investments held by trustee	205,088	-	-	205,088
Accounts receivable, net	71,353	-	-	71,353
Accrued interest receivable	1,975	839	1,604	4,418
Assessments receivable, net	-	-	1,543	1,543
Due from other governmental units	59,190	48,372	19,511	127,073
Inventory	17,646	-	-	17,646
Prepaid items	52,841	5,538	8,393	66,772
Total assets	<u>\$ 945,817</u>	<u>\$ 256,941</u>	<u>\$ 396,934</u>	<u>\$ 1,599,692</u>
<b>Liabilities, deferred inflows of resources, and fund balances</b>				
Liabilities:				
Accounts payable	\$ 44,369	\$ 13	\$ 3,715	\$ 48,097
Accrued liabilities	45,004	2,185	2,944	50,133
Due to other governmental units	22,468	-	-	22,468
Deposits and other liabilities	1,225	-	-	1,225
Unearned revenue	87,936	-	-	87,936
Total liabilities	<u>201,002</u>	<u>2,198</u>	<u>6,659</u>	<u>209,859</u>
Deferred inflows of resources:				
Unavailable revenue - long-term special assessments	-	-	1,543	1,543
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>1,543</u>	<u>1,543</u>
Fund balances:				
Nonspendable - inventory	17,646	-	-	17,646
Nonspendable - prepaid items	52,841	5,538	8,393	66,772
Nonspendable - landfill postclosure care	205,088	-	-	205,088
Nonspendable - cemetery perpetual care	-	-	287,665	287,665
Restricted - streets and highways	-	249,205	85,099	334,304
Assigned - fire department	299,931	-	-	299,931
Assigned - sidewalk replacement	690	-	-	690
Assigned - cemetery	-	-	7,575	7,575
Assigned - subsequent year's budget	-	-	-	-
Unassigned	168,619	-	-	168,619
Total fund balances	<u>744,815</u>	<u>254,743</u>	<u>388,732</u>	<u>1,388,290</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 945,817</u>	<u>\$ 256,941</u>	<u>\$ 396,934</u>	<u>\$ 1,599,692</u>

City of Clare

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

June 30, 2019

Total fund balances for governmental funds	\$ 1,388,290
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Capital assets	17,170,334
Accumulated depreciation	(3,728,633)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	
Long-term special assessments receivable	1,543
Deferred outflows represent financial uses, but are deferred expenses in the government-wide financial statements	464,732
Deferred inflows represent deferred pension-related financial sources that are recognized in future periods in the government-wide financial statements	(145,093)
The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	652,250
Certain liabilities are not payable in the current period and are not reported in the funds.	
Accrued interest payable	(25,882)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances as of June 30, 2019 are:	
Installment purchase contracts	(73,102)
General obligation limited tax bonds	(2,134,801)
Net pension liability	(3,062,148)
Total net position of governmental activities	<u>\$ 10,507,490</u>

City of Clare

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

Year Ended June 30, 2019

	General	Major Streets	Other Governmental Funds	Total
<b>Revenues</b>				
Property taxes and related fees	\$ 1,582,009	\$ -	\$ 251,297	\$ 1,833,306
Licenses and permits	5,386	-	-	5,386
Federal grants	-	-	-	-
State grants	532,049	349,726	139,269	1,021,044
Charges for services	637,020	-	9,400	646,420
Interest earnings	9,457	1,916	4,075	15,448
Rents and royalties	78,761	-	-	78,761
Fines and forfeits	4,769	-	2,720	7,489
Special assessments, net	15,263	-	1,548	16,811
Donations	74,274	-	1,000	75,274
Proceeds from sale of assets	8,545	-	-	8,545
Miscellaneous	16,435	2,501	1,727	20,663
Total revenues	2,963,968	354,143	411,036	3,729,147
<b>Expenditures</b>				
General government	860,342	-	-	860,342
Public safety	1,036,502	-	1,920	1,038,422
Public works	375,798	180,127	445,555	1,001,480
Community development	35,751	-	-	35,751
Recreation and culture	457,750	-	-	457,750
Capital outlay	196,448	-	8,737	205,185
Debt service	127,926	-	51,631	179,557
Total expenditures	3,090,517	180,127	507,843	3,778,487
Excess (deficiency) of revenues over expenditures	(126,549)	174,016	(96,807)	(49,340)
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	-	-	-
Transfers in	411,002	-	151,630	562,632
Transfers out	(421,632)	(102,000)	(7,000)	(530,632)
Total other financing sources (uses)	(10,630)	(102,000)	144,630	32,000
Net change in fund balances	(137,179)	72,016	47,823	(17,340)
Fund balances-beginning	881,994	182,727	340,909	1,405,630
Fund balances-ending	\$ 744,815	\$ 254,743	\$ 388,732	\$ 1,388,290

See accompanying notes.

City of Clare

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

Year Ended June 30, 2019

Net change in fund balances - total governmental funds	\$ (17,340)
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add: capital outlay	443,640
Subtract: depreciation expense	(377,825)
Subtract: sale of land	(8,545)
Revenue in the statement of activities that represents new levies for long-term special assessments and does not affect revenue at the fund level.	(16,650)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	
Add: decrease in accrued interest payable	1,676
Subtract: increase in net pension liability net of related deferred outflows and inflows	(51,984)
Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Add: repayments of installment purchase contract	116,862
Subtract: bond proceeds	-
The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within governmental activities.	
Net operating income (loss) from governmental activities in internal service funds	(19,771)
Interest earnings from governmental internal service funds	743
Other revenue from governmental internal service funds	-
Gain (loss) on sale of capital assets in governmental internal service funds	10,000
Transfers out	(12,000)
Capital contributions from governmental internal service funds	990
Other reconciling items	(1,610)
Change in net position of governmental activities	<u>\$ 68,186</u>

# City of Clare

## Proprietary Funds Statement of Net Position

Year Ended June 30, 2019

	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 64,594	\$ 20,944	\$ 85,538	\$ 43,322
Investments	465,000	75,000	540,000	65,000
Accounts receivable, net	120,465	187,515	307,980	2,312
Accrued interest receivable	2,296	370	2,666	320
Assessments receivable, net	2,773	-	2,773	-
Due from other governments	-	-	-	-
Inventory	44,164	6,290	50,454	33,273
Prepaid items	6,435	7,581	14,016	3,634
Restricted current assets:				
Cash and cash equivalents	181,460	32,359	213,819	-
<b>Total current assets</b>	<b>887,187</b>	<b>330,059</b>	<b>1,217,246</b>	<b>147,861</b>
Noncurrent assets:				
Capital assets:				
Land	10,757	42,632	53,389	85,000
Construction in progress	-	101,302	101,302	-
Land improvements, net	41,953	-	41,953	-
Buildings and improvements, net	1,319,117	51,509	1,370,626	146,527
Equipment, net	1,117,183	-	1,117,183	58,115
Vehicles, net	-	-	-	460,053
Sewer and water system infrastructure, net	3,165,470	3,718,267	6,883,737	-
<b>Total noncurrent assets</b>	<b>5,654,480</b>	<b>3,913,710</b>	<b>9,568,190</b>	<b>749,695</b>
<b>Total assets</b>	<b>6,541,667</b>	<b>4,243,769</b>	<b>10,785,436</b>	<b>897,556</b>
<b>Deferred outflows of resources</b>				
Related to pension	63,104	51,630	114,734	-
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	20,219	57,921	78,140	1,044
Accrued expenses	8,615	9,034	17,649	2,528
Accrued interest payable	11,678	2,863	14,541	-
Deposits and other liabilities	13,872	-	13,872	-
Bonds and loans payable	78,000	38,000	116,000	22,585
Net pension liabilities	415,796	340,196	755,992	-
<b>Total current liabilities</b>	<b>548,180</b>	<b>448,014</b>	<b>996,194</b>	<b>26,157</b>
Noncurrent liabilities:				
Bonds and loans payable	2,633,954	600,000	3,233,954	296,015
<b>Total liabilities</b>	<b>3,182,134</b>	<b>1,048,014</b>	<b>4,230,148</b>	<b>322,172</b>
<b>Deferred inflows of resources</b>				
Related to pension	19,702	16,119	35,821	-
<b>Net position</b>				
Invested in capital assets, net of related debt	2,942,526	3,275,710	6,218,236	431,095
Restricted for debt service	181,460	32,359	213,819	-
Unrestricted	278,949	(76,803)	202,146	144,289
<b>Total net position</b>	<b>\$ 3,402,935</b>	<b>\$ 3,231,266</b>	<b>\$ 6,634,201</b>	<b>\$ 575,384</b>

*See accompanying notes.*

City of Clare

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

Year Ended June 30, 2019

Net position - total enterprise funds \$ 6,634,201

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

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

241,735

Total net position of business-type activities

\$ 6,875,936

## City of Clare

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

Year Ended June 30, 2019

	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Operating revenues</b>				
Charges for services	\$ 926,955	\$ 622,842	\$ 1,549,797	\$ 406,023
Miscellaneous	2,453	1,320	3,773	6,289
Total operating revenues	929,408	624,162	1,553,570	412,312
<b>Operating expenses</b>				
Salaries and wages	207,283	211,979	419,262	74,516
Payroll taxes	15,612	15,828	31,440	5,526
Employee benefits	49,801	55,568	105,369	24,559
Retirement	84,687	77,856	162,543	17,520
Supplies	60,919	59,190	120,109	71,413
Postage	3,488	3,019	6,507	-
Professional and contracted services	20,522	20,701	41,223	35,087
Insurance	12,333	4,499	16,832	13,069
Telephone and communications	6,362	2,824	9,186	3,869
Professional development	3,291	4,263	7,554	2,691
Utilities	109,492	88,304	197,796	19,392
Repair and maintenance	19,342	65,164	84,506	59,183
Equipment rental	97,300	71,700	169,000	-
Miscellaneous	33,152	19,005	52,157	600
Depreciation	292,670	134,658	427,328	131,233
Total operating expenses	1,016,254	834,558	1,850,812	458,658
Operating income (loss)	(86,846)	(210,396)	(297,242)	(46,346)
<b>Nonoperating revenues (expenses)</b>				
Special assessments	2,773	-	2,773	-
Interest earnings	6,079	1,133	7,212	743
Other revenue	13,767	202,195	215,962	-
Proceeds from sale of assets	-	-	-	10,000
Interest expense	(71,301)	(20,142)	(91,443)	(2,365)
Net nonoperating revenues (expenses)	(48,682)	183,186	134,504	8,378
Income (loss) before transfers	(135,528)	(27,210)	(162,738)	(37,968)
<b>Transfers</b>				
Transfers in	-	-	-	-
Transfers out	(10,000)	(10,000)	(20,000)	(12,000)
Total transfers	(10,000)	(10,000)	(20,000)	(12,000)
Capital contributions	495	495	990	990
Total capital contributions	495	495	990	990
Changes in net position	(145,033)	(36,715)	(181,748)	(48,978)
Total net position-beginning, restated	3,547,968	3,267,981	6,815,949	624,362
Total net position-ending	\$ 3,402,935	\$ 3,231,266	\$ 6,634,201	\$ 575,384

See accompanying notes.

City of Clare

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

Year Ended June 30, 2019

Net change in net position - total enterprise funds \$ (181,748)

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

The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within business-type activities. (26,575)

Other reconciling items 1  
Change in net position of business-type activities \$ (208,322)



City of Clare

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2019

	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 938,962	\$ 556,443	\$ 1,495,405	\$ 412,360
Payments to suppliers	(322,688)	(318,494)	(641,182)	(207,578)
Payments to employees	(356,775)	(359,752)	(716,527)	(122,015)
Net cash from operating activities	259,499	(121,803)	137,696	82,767
<b>Cash flows from noncapital financing activities</b>				
Transfers in	-	-	-	-
Transfers out	(10,000)	(10,000)	(20,000)	(12,000)
Proceeds from equipment loan	-	-	-	215,100
Other revenue	13,767	202,195	215,962	-
Net cash from noncapital financing activities	3,767	192,195	195,962	203,100
<b>Cash flows from capital and related financing activities</b>				
Purchases and construction of capital assets	(48,990)	(153,189)	(202,179)	(251,980)
Capital contributions	495	495	990	990
Proceeds from the sale of capital assets	-	-	-	10,000
Proceeds from special assessments	157	-	157	-
Proceeds from issuance of capital debt	-	-	-	-
Principal paid on capital debt	(77,000)	(33,000)	(110,000)	(11,500)
Interest paid on capital debt	(71,773)	(20,426)	(92,199)	(2,365)
Net cash from capital and related financing activities	(197,111)	(206,120)	(403,231)	(254,855)
<b>Cash flows from investing activities</b>				
Purchases of investments	(5,000)	-	(5,000)	(10,000)
Proceeds from the sale of investments	-	145,000	145,000	-
Interest earnings	5,077	1,382	6,459	423
Net cash from investing activities	77	146,382	146,459	(9,577)
Net change in cash and cash equivalents	66,232	10,654	76,886	21,435
Balances-beginning of year	179,822	42,649	222,471	21,887
Balances-end of year	\$ 246,054	\$ 53,303	\$ 299,357	\$ 43,322
Displayed as:				
Cash and cash equivalents	\$ 64,594	\$ 20,944	\$ 85,538	\$ 43,322
Restricted cash and cash equivalents	181,460	32,359	213,819	-
	\$ 246,054	\$ 53,303	\$ 299,357	\$ 43,322
<b>Reconciliation of operating loss to net cash from operating activities:</b>				
Operating loss	\$ (86,846)	\$ (210,396)	\$ (297,242)	\$ (46,346)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation expense	292,670	134,658	427,328	131,233
Change in assets and liabilities:				
Accounts receivable, net	9,554	(67,719)	(58,165)	103
Inventory	(2,896)	(2,276)	(5,172)	(1,038)
Prepaid items	119	(97)	22	(266)
Accounts payable	1,641	54,326	55,967	(1,025)
Accrued expenses	608	1,479	2,087	106
Deposits and other liabilities	44,649	(31,778)	12,871	-
Net cash from operating activities	\$ 259,499	\$ (121,803)	\$ 137,696	\$ 82,767

See accompanying notes.

City of Clare

Statement of Fiduciary Net Position

Year Ended June 30, 2019

	<u>Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 42,665
Total assets	<u>\$ 42,665</u>
<b>Liabilities</b>	
Accrued expenses	\$ 33,789
Due to other governmental units	8,876
Total liabilities	<u>\$ 42,665</u>

City of Clare

Component Units Statement of Net Position

June 30, 2019

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 39,283	\$ -	\$ 4,609	\$ 43,892
Accounts receivable	-	-	-	-
Prepaid items	-	-	-	-
Capital assets, net:				
Assets not being depreciated	108,126	-	-	108,126
Assets being depreciated	206,773	53,082	-	259,855
<b>Total assets</b>	<b>354,182</b>	<b>53,082</b>	<b>4,609</b>	<b>411,873</b>
<b>Liabilities</b>				
Accounts payable	227	-	-	227
Accrued interest payable	1,478	-	-	1,478
Long-term liabilities:				
Due in one year	29,000	-	-	29,000
Due in more than one year	171,000	-	-	171,000
<b>Total liabilities</b>	<b>201,705</b>	<b>-</b>	<b>-</b>	<b>201,705</b>
<b>Net position</b>				
Invested in capital assets, net of related debt	114,899	53,082	-	167,981
Restricted - debt service	37,578	-	-	37,578
Restricted - community development	-	-	4,609	4,609
<b>Total net position</b>	<b>\$ 152,477</b>	<b>\$ 53,082</b>	<b>\$ 4,609</b>	<b>\$ 210,168</b>

City of Clare

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

June 30, 2019

Total fund balances for component units	\$ 43,665
Total net position reported for component units in the statement of net position is different because:	
Capital assets used in the component units' governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Capital assets	830,975
Accumulated depreciation	(462,994)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest payable	(1,478)
Long-term liabilities applicable to the component units' governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2019 are:	
DDA bonds	<u>(200,000)</u>
Total net position of component units	<u>\$ 210,168</u>

City of Clare

Component Units Statement of Activities

June 30, 2019

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Finance Authority	Brownfield Redevelopment Authority		
Downtown Development Authority:								
Community and economic development	\$ 53,036	\$ 10,144	\$ -	\$ (42,892)	\$ -	\$ -	\$ -	\$ (42,892)
Local Development Finance Authority:								
Community and economic development	4,148	-	-	-	(4,148)	-	-	(4,148)
Brownfield Redevelopment Authority:								
Community and economic development	-	-	-	-	-	-	-	-
	<u>\$ 57,184</u>	<u>\$ 10,144</u>	<u>\$ -</u>	<u>(42,892)</u>	<u>(4,148)</u>	<u>-</u>	<u>-</u>	<u>(47,040)</u>
General revenues:								
Property taxes and related fees				91,352	-	-	-	91,352
Federal revenue				-	-	-	-	-
Interest earnings				95	-	9	-	104
Total general revenues				<u>91,447</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>91,456</u>
Change in net position				48,555	(4,148)	9	-	44,416
Net position-beginning				103,922	57,230	4,600	-	165,752
Net position-ending				<u>\$ 152,477</u>	<u>\$ 53,082</u>	<u>\$ 4,609</u>	<u>\$ -</u>	<u>\$ 210,168</u>

See accompanying notes.

City of Clare

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

June 30, 2019

Net change in fund balances - component units \$ 10,929

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

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

Add: capital outlay 34,560  
Subtract: depreciation expense (28,263)

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

Add: decrease in accrued interest payable 190

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

Add: repayments of DDA bonds 27,000  
Change in net position of component units \$ 44,416

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies**

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

**A. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**B. Reporting Entity**

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

**Discretely Presented Component Units**

Downtown Development Authority (DDA) – The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of twelve members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

**B. Reporting Entity (continued)**

**Discretely Presented Component Units (continued)**

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

**C. Basis of Presentation – Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental and internal service funds, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

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

**D. Basis of Presentation – Fund Financial Statements**

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



City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

**E. Use of Estimates**

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

**F. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

**F. Measurement Focus and Basis of Accounting (continued)**

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

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

**G. Budgetary Information**

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

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

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

Deferred outflows/inflows of resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

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

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

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

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

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

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

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

**I. Revenues and Expenditures/Expenses**

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

City of Clare

Notes to Financial Statements

June 30, 2019

**1. Summary of Significant Accounting Policies (continued)**

**I. Revenues and Expenditures/Expenses (continued)**

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

The 2018 net taxable valuation of the City totaled \$87,265,729, on which ad valorem taxes levied consisted of 17.5000 mills for City operating purpose, 0.7500 mills for parks, and 3.0000 mills for streets. These amounts are recognized in the General Fund (operating and parks) and Local Street Fund (streets) as property taxes and related fees.

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

**2. Deposits and Investments**

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

	Deposits	Investments	Total
Financial statement caption:			
Primary Government:			
Cash and cash equivalents	\$ 339,659	\$ -	\$ 339,659
Investments	-	1,500,000	1,500,000
Investments held by trustee	205,088	-	205,088
Restricted cash and cash equivalents	213,819	-	213,819
Component Units:			
Cash and cash equivalents	43,892	-	43,892
Fiduciary Funds:			
Cash and cash equivalents	42,665	-	42,665
	<u>\$ 845,123</u>	<u>\$ 1,500,000</u>	<u>\$ 2,345,123</u>



City of Clare

Notes to Financial Statements

June 30, 2019

**2. Deposits and Investments (continued)**

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

As of June 30, 2019, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
Repurchase agreements	\$ 1,500,000	<1 year

**Investment and Deposit Risk**

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

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

Custodial Credit Risk – Deposits—Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$318,509 of the City’s bank balances of \$642,916 was exposed to custodial credit risk because it was uninsured and uncollateralized.

City of Clare

Notes to Financial Statements

June 30, 2019

**2. Deposits and Investments (continued)**

**Investment and Deposit Risk (continued)**

Custodial Credit Risk – Investments–For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for investment custodial credit risk. The City’s funds are not exposed to custodial credit risk because they are repurchase agreements with an agency of the United States government as the underlying issuer.

Concentration of Credit Risk–The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The City’s investments include \$1,500,000 of repurchase agreements with Chemical Bank.

City of Clare

Notes to Financial Statements

June 30, 2019

**3. Capital Assets**

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

<b>Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 4,387,599	\$ -	\$ (7,800)	\$ 4,379,799
Construction in progress	2,453,343	107,059	-	2,560,402
Total capital assets not being depreciated	6,840,942	107,059	(7,800)	6,940,201
Capital assets being depreciated:				
Land improvements	4,930,142	247,406	-	5,177,548
Buildings and improvements	3,264,066	-	-	3,264,066
Equipment	2,188,218	106,059	-	2,294,277
Vehicles	2,676,222	235,100	(139,716)	2,771,606
Total capital assets being depreciated	13,058,648	588,565	(139,716)	13,507,497
Less accumulated depreciation:				
Land improvements	(767,468)	(190,580)	-	(958,048)
Buildings and improvements	(1,742,634)	(91,297)	-	(1,833,931)
Equipment	(1,741,398)	(67,709)	-	(1,809,107)
Vehicles	(1,625,459)	(159,473)	129,716	(1,655,216)
Total accumulated depreciation	(5,876,959)	(509,059)	129,716	(6,256,302)
Total capital assets being depreciated, net	7,181,689	79,506	(10,000)	7,251,195
Governmental activities capital assets, net	\$14,022,631	\$186,565	\$ (17,800)	\$14,191,396

City of Clare

Notes to Financial Statements

June 30, 2019

**3. Capital Assets (continued)**

<b>Business-type Activities:</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Construction in progress	38,652	62,650	-	101,302
Total capital assets not being depreciated	92,041	62,650	-	154,691
Capital assets being depreciated:				
Land improvements	412,516	13,033	-	425,549
Buildings and improvements	5,381,199	13,767	-	5,394,966
Equipment	1,920,666	14,195	-	1,934,861
Infrastructure	11,983,214	161,189	-	12,144,403
Total capital assets being depreciated	19,697,595	202,184	-	19,899,779
Less accumulated depreciation:				
Land improvements	(380,976)	(2,619)	-	(383,595)
Buildings and improvements	(3,940,443)	(83,896)	-	(4,024,339)
Equipment	(757,363)	(60,315)	-	(817,678)
Infrastructure	(4,980,170)	(280,498)	-	(5,260,668)
Total accumulated depreciation	(10,058,952)	(427,328)	-	(10,486,280)
Total capital assets being depreciated, net	9,638,643	(225,144)	-	9,413,499
Business-type activities capital assets, net	\$9,730,684	\$ (162,494)	\$ -	\$9,568,190

City of Clare

Notes to Financial Statements

June 30, 2019

**3. Capital Assets (continued)**

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

Governmental Activities	
General government	\$ 128,439
Public safety	99,573
Public works	78,898
Recreation and culture	70,916
Internal Service Fund depreciation	131,233
	<u>\$ 509,059</u>
Business-Type Activities	
Sewer	\$ 292,670
Water	134,658
	<u>\$ 427,328</u>

**Discretely Presented Component Units**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 108,126	\$ -	\$ -	\$ 108,126
Total capital assets not being depreciated	108,126	-	-	108,126
Capital assets being depreciated:				
Land improvements	456,072	34,561	-	490,633
Equipment	138,200	-	-	138,200
Total capital assets being depreciated	594,272	34,561	-	628,833
Less accumulated depreciation:				
Land improvements	(259,744)	(24,116)	-	(283,860)
Equipment	(138,200)	-	-	(138,200)
Total accumulated depreciation	(397,944)	(24,116)	-	(422,060)
Total capital assets being depreciated, net	196,328	10,445	-	206,773
DDA capital assets, net	<u>\$ 304,454</u>	<u>\$ 10,445</u>	<u>\$ -</u>	<u>\$ 314,899</u>

City of Clare

Notes to Financial Statements

June 30, 2019

**3. Capital Assets (continued)**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets being depreciated:				
Land improvements	\$ 94,016	\$ -	\$ -	\$ 94,016
Total capital assets being depreciated	94,016	-	-	94,016
Less accumulated depreciation:				
Land improvements	(36,788)	(4,146)	-	(40,935)
Total accumulated depreciation	(36,788)	(4,146)	-	(40,935)
LDFA capital assets, net	<u>\$ 57,228</u>	<u>\$ (4,146)</u>	<u>\$ -</u>	<u>\$ 53,082</u>

Construction Commitments

The City's active construction projects as of June 30, 2019 included the following contractor commitments:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Airport – Parallel Taxiway	\$ 1,144,178	\$ 41,931
Iron Removal Filter Rehabilitation	3,888	292,245
Water Treatment Plant Upgrades	58,416	1,231,035
	<u>\$ 1,206,482</u>	<u>\$ 1,565,211</u>

City of Clare

Notes to Financial Statements

June 30, 2019

**4. Interfund Receivables, Payables, and Transfers**

As of June 30, 2019, there were no interfund receivables or payables between the funds. The composition of interfund transfers out and in is as follows:

Fund	Transfers Out	Fund	Transfers In
General	\$ 421,632	General	\$ 411,002
Major Street	102,000	Local Street	100,000
Local Street	2,000	Public Safety	51,630
Cemetery Perpetual Care	5,000		
Internal Service	12,000		
Sewer	10,000		
Water	10,000		
	<u>\$ 562,632</u>		<u>\$ 562,632</u>

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

**5. Long-Term Debt**

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

City of Clare

Notes to Financial Statements

June 30, 2019

**5. Long-Term Debt (continued)**

Bond and contractual agreements can be summarized as follows:

	<b>Interest Rate</b>	<b>Principal Matures</b>	<b>Beginning Balance</b>	<b>Additions (Reductions)</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>						
Public safety building – 2012 refunding bonds	3.37%	2035	\$ 520,000	\$ (35,000)	\$ 485,000	\$ 35,000
Soccer complex installment purchase	2.69%	2022	90,228	(17,126)	73,102	17,587
North Industrial Park	4.00%	2044	523,000	(12,000)	511,000	12,000
Fire truck purchase	3.09%	2030	427,758	(31,034)	396,724	32,005
Sidewalk LED lighting	2.24%	2031	113,184	(8,707)	104,477	8,706
Recreational Complex Construction	2.60%	2037	332,000	(13,000)	319,000	14,000
2018 Freightliner Blade Truck	2.05%	2028	115,000	(11,500)	103,500	11,500
2018 Elgin Street Sweeper	3.60%	2033	-	215,100	215,100	11,085
			<u>\$ 2,121,170</u>	<u>\$ 86,733</u>	<u>\$ 2,207,903</u>	<u>\$ 141,884</u>
<b>Business-Type Activities</b>						
Sewage system revenue bonds	2.50%	2051	\$ 2,345,954	\$ (47,000)	\$ 2,298,954	48,000
Water – 2012 refunding bonds	2.23%	2023	140,000	(25,000)	115,000	30,000
Sewer – 2012 refunding bonds	2.15%	2023	125,000	(25,000)	100,000	25,000
Water – 2014 rural development bonds	3.25%	2054	531,000	(8,000)	523,000	8,000
Sewer – 2014 rural development bonds	3.25%	2054	318,000	(5,000)	313,000	5,000
			<u>\$ 3,459,954</u>	<u>\$ (110,000)</u>	<u>\$ 3,349,954</u>	<u>\$ 116,000</u>
<b>Component Units</b>						
2006 DDA bonds	3.95 to 4.55%	2025	\$ 227,000	\$ (27,000)	\$ 200,000	\$ 29,000

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

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Component Units</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	141,884	62,972	116,000	89,726	29,000	8,243
2021	144,724	59,421	112,000	86,885	30,000	6,967
2022	146,642	55,735	119,000	83,937	32,000	5,611
2023	150,482	51,938	120,000	80,789	35,000	4,128
2024	123,102	48,133	68,000	78,315	36,000	2,539
2025-2029	652,687	189,484	368,000	363,433	38,000	865
2030-2034	480,382	105,008	418,000	311,681	-	-
2035-2039	221,000	47,543	479,000	252,617	-	-
2040-2044	147,000	18,200	549,000	184,772	-	-
2045-2049	-	-	624,954	107,138	-	-
2050-2054	-	-	376,000	18,711	-	-
	<u>\$ 2,207,903</u>	<u>\$ 638,434</u>	<u>\$ 3,349,954</u>	<u>\$ 1,658,004</u>	<u>\$ 200,000</u>	<u>\$ 28,353</u>



City of Clare

Notes to Financial Statements

June 30, 2019

**6. Segment Information–Enterprise Funds**

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

**7. Risk Management**

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

The City paid the annual premium for this insurance policy before June 30, 2019.

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

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

**8. Deferred Compensation Plan**

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

City of Clare

Notes to Financial Statements

June 30, 2019

**8. Deferred Compensation Plan (continued)**

A summary of the plan's investment activity for the year ended June 30, 2019, follows:

Balance – July 1, 2018	\$ 626,286
Employee contributions	38,849
Transfers	-
Current withdrawals	(30,218)
Interest and market losses	27,719
Adjustments/fees	(7,262)
Balance – June 30, 2019	<u>\$ 655,374</u>

**9. Pension Plan**

Defined Benefit Pension Plan

*General Information about the Pension Plan*

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

*Contributions.* The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's contribution rate during the 2018 calendar valuation period was 26.18% of annual covered payroll for general employees and 20.81% of annual covered payroll for police employees. The City's contributions to the plan for the year ended June 30, 2019 were \$291,209 which equaled the City's required contribution.

The City may establish contribution rates to be paid by its covered employees. General employees are required to contribute 4% of their annual covered payroll; police employees contribute 8%. Employee contributions for the year ended June 30, 2019 were \$68,373.

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

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

<b>01 – General: Open Division</b>	<b>2018 Valuation</b>
Benefit Multiplier	2.25% Multiplier (80% max)
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	3 years
COLA for Future Retirees	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)
Employee Contributions	4%
Act 88	Yes (Adopted 6/6/2005)
<b>02 – Police: Open Division</b>	<b>2018 Valuation</b>
Benefit Multiplier	2.50% Multiplier (80% max) Frozen FAC; to 2.25% Multiplier
Bridged Benefit Date	06/30/2016
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	55/25 50/25
Early Retirement (Reduced)	55/15
Final Average Compensation	3 years
Employee Contributions	8%
Act 88	Yes (Adopted 6/6/2005)

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

*Employees covered by benefit terms.* As of the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>28</u>
	<u>65</u>

*Net Pension Liability*

The employer's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3.0%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment expense, including inflation.
- Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.
- Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend
- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2015

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Global Equity	55.50%	3.41%
Global Fixed Income	18.50%	0.23%
Real Assets	13.50%	0.97%
Diversifying Strategies	12.50%	0.63%
Total	100.00%	5.24%

*Discount Rate.* The discount rate used to measure the total pension liability is 8% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

*Changes in Net Pension Liability*

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
<b>Balances as of December 31, 2017</b>	\$ 8,935,733	\$ 5,585,049	\$ 3,350,684
<b>Changes for the year</b>			
Service Cost	154,120	-	154,120
Interest on total pension liability	699,144	-	699,144
Changes in benefits	(48,037)	-	(48,037)
Difference between expected and actual experience	(216,322)	-	(216,322)
Changes in assumptions	-	-	-
Employer contributions	-	277,787	(277,787)
Employee contributions	-	68,396	(68,396)
Net investment income	-	(214,020)	214,020
Benefit payments, including employee refunds	(546,980)	(546,980)	-
Administrative expense	-	(10,713)	10,713
Other changes	1	-	1
Net changes	41,926	(425,530)	467,456
<b>Balances as of December 31, 2018</b>	<b>\$ 8,977,659</b>	<b>\$ 5,159,519</b>	<b>\$ 3,818,140</b>

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability	<u>\$4,874,169</u>	<u>\$3,818,140</u>	<u>\$2,929,644</u>

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

For the year ended June 30, 2019 the employer recognized pension expense of \$284,375. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 180,914
Differences in assumptions	78,981	-
Excess (Deficit) Investment Returns	349,716	-
Contributions subsequent to the measurement date*	<u>150,769</u>	<u>-</u>
Total	<u>\$ 579,466</u>	<u>\$ 180,914</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2019.

City of Clare

Notes to Financial Statements

June 30, 2019

**9. Pension Plan (continued)**

Defined Benefit Pension Plan (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	
<b>2019</b>	<b>\$ 59,824</b>
<b>2020</b>	<b>21,416</b>
<b>2021</b>	<b>166,543</b>
	<b><u>\$ 247,783</u></b>

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

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

**10. Prior Period Adjustment – Proprietary Funds**

Prior to June 30, 2019, the pension-related elements for the Sewer Fund and Water Fund were not reflected in the fund-level financial statements, although they were included in the statement of net position for business-type activities at the entity-level. As a result, beginning net position for the Sewer Fund and Water Fund have been restated as detailed below:

	Sewer Fund	Water Fund	Total
Net position as originally reported	\$ 3,879,426	\$ 3,539,173	\$ 7,418,599
June 30, 2018 balances for:			
Deferred outflows	29,723	24,320	54,043
Deferred inflows	(23,935)	(19,583)	(43,518)
Net pension liability	(337,246)	(275,929)	(613,175)
Net adjustment	<u>(331,458)</u>	<u>(271,192)</u>	<u>(602,650)</u>
Net position as restated	<u>\$ 3,547,968</u>	<u>\$ 3,267,981</u>	<u>\$ 6,815,949</u>



## City of Clare

### Notes to Financial Statements

June 30, 2019

#### **11. Contingencies**

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

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

#### **12. Landfill Post-Closure Care**

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

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

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

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

#### **13. Tax Abatements**

The City receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by the City. Industrial Facility Tax exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. For the fiscal year ended June 30, 2019, the City's property tax revenues were reduced by \$9,835 under these agreements. There are no significant abatements made by the City.

City of Clare

Required Supplementary Information  
Defined Benefit Pension Plan (MERS)

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

	2018	2017	2016	2015	2014	2013	2012	2011
<b>Total pension liability</b>								
Service Cost	\$ 154,120	\$ 144,430	\$ 163,000	\$ 158,301	\$ 154,504			
Interest	699,144	675,187	669,009	628,374	607,608			
Changes of benefit terms	(48,037)	40,916	(173,929)	(12,417)	-			
Difference between expected and actual experience	(216,322)	(26,763)	(39,835)	(143,831)	-			
Changes of assumptions	-	-	-	394,907	-			
Benefit payments including employee refunds	(546,980)	(531,306)	(532,186)	(546,575)	(500,277)			
Other	1	(1)	1	19,637	18,988			
<b>Net change in total pension liability</b>	<b>41,926</b>	<b>302,463</b>	<b>86,060</b>	<b>498,396</b>	<b>280,823</b>			
<b>Total pension liability, beginning</b>	<b>8,935,733</b>	<b>8,633,270</b>	<b>8,547,210</b>	<b>8,048,814</b>	<b>7,767,991</b>			
<b>Total pension liability, ending</b>	<b>\$ 8,977,659</b>	<b>\$ 8,935,733</b>	<b>\$ 8,633,270</b>	<b>\$ 8,547,210</b>	<b>\$ 8,048,814</b>	<b>\$ 7,883,371</b>	<b>\$ 7,880,941</b>	<b>\$ 7,497,994</b>
<b>Plan fiduciary net position</b>								
Contributions-employer	\$ 277,787	\$ 256,765	\$ 246,242	\$ 221,449	\$ 200,646			
Contributions-employee	68,396	67,274	90,212	94,551	75,078			
Net Investment income	(214,020)	669,346	538,864	(75,565)	314,166			
Benefit payments including employee refunds	(546,980)	(531,306)	(532,186)	(546,575)	(500,277)			
Administrative expense and other changes	(10,713)	(10,609)	(10,640)	(11,048)	(11,501)			
<b>Net change in plan fiduciary net position</b>	<b>(425,530)</b>	<b>451,470</b>	<b>332,492</b>	<b>(317,188)</b>	<b>78,112</b>			
<b>Plan fiduciary net position, beginning</b>	<b>5,585,049</b>	<b>5,133,579</b>	<b>4,801,087</b>	<b>5,118,275</b>	<b>5,040,163</b>			
<b>Plan fiduciary net position, ending</b>	<b>\$ 5,159,519</b>	<b>\$ 5,585,049</b>	<b>\$ 5,133,579</b>	<b>\$ 4,801,087</b>	<b>\$ 5,118,275</b>	<b>\$ 5,351,846</b>	<b>\$ 5,194,914</b>	<b>\$ 5,106,348</b>
<b>Employer net pension liability</b>	<b>\$ 3,818,140</b>	<b>\$ 3,350,684</b>	<b>\$ 3,499,691</b>	<b>\$ 3,746,123</b>	<b>\$ 2,930,539</b>	<b>\$ 2,531,525</b>	<b>\$ 2,686,027</b>	<b>\$ 2,391,646</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>57.5%</b>	<b>62.5%</b>	<b>59.5%</b>	<b>56.2%</b>	<b>63.6%</b>	<b>67.9%</b>	<b>65.9%</b>	<b>68.1%</b>
<b>Covered employee payroll</b>	<b>\$ 1,340,751</b>	<b>\$ 1,266,188</b>	<b>\$ 1,284,529</b>	<b>\$ 1,257,889</b>	<b>\$ 1,238,862</b>	<b>\$ 1,164,366</b>	<b>\$ 1,252,982</b>	<b>\$ 1,214,372</b>
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	<b>284.8%</b>	<b>264.6%</b>	<b>272.4%</b>	<b>297.8%</b>	<b>236.6%</b>	<b>217.4%</b>	<b>214.4%</b>	<b>196.9%</b>

Notes to schedule:

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

Changes in assumptions:

For 2016: 1) The assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%. 2) The asset smoothing period was changed from 10 years to 5 years, effective in 2016. There were no changes in actuarial assumptions or methods for 2018. date.

These totals and ratios for years 2009 through 2013 are shown for comparative purposes and reflect the actuarial accrued liability, actuarial value of assets, unfunded actuarial accrued liability, and covered payroll as reported in previous years' financial statements.

City of Clare

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

	2018	2017	2016	2015	2014	2013
Actuarial determined contributions	\$ 277,787	\$ 256,765	\$ 246,242	\$ 221,449	\$ 200,646	\$ 203,749
Contributions in relation to the actuarially determined contribution	277,787	256,765	246,242	221,449	200,646	203,749
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,340,751	\$ 1,266,188	\$ 1,284,529	\$ 1,257,889	\$ 1,238,862	\$ 1,164,366
Contributions as a percentage of covered employee payroll	21%	20%	19%	18%	16%	17%

**Notes to Schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary Increases	3.75%
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male RP-2014 Annuity Mortality Table

Above dates are based on the actuarial measurement date

City of Clare

Budgetary Comparison Schedule - General Fund

June 30, 2019

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes and related fees	\$ 1,579,990	\$ 1,579,990	\$ 1,582,009	\$ 2,019
Licenses and permits	1,750	1,750	5,386	3,636
Federal revenue	30,096	30,096	-	(30,096)
State revenue	431,789	431,789	532,049	100,260
Charges for services	646,955	646,955	637,020	(9,935)
Interest earnings	8,900	8,900	9,457	557
Rents and royalties	74,350	74,350	78,761	4,411
Fines and forfeitures	5,100	5,100	4,769	(331)
Special assessments, net	15,000	15,000	15,263	263
Donations and contributions	12,275	12,275	74,274	61,999
Proceeds from sale of assets	-	-	8,545	8,545
Miscellaneous	2,500	2,500	16,435	13,935
<b>Total revenues</b>	<b>2,808,705</b>	<b>2,808,705</b>	<b>2,963,968</b>	<b>155,263</b>
<b>Expenditures</b>				
<b>General government:</b>				
City commission	46,050	46,050	42,005	4,045
City manager	117,305	117,305	113,965	3,340
Assessor	104,290	106,790	103,046	3,744
Clerk	207,068	207,068	198,994	8,074
Elections	7,410	7,410	5,680	1,730
Board of review	1,544	1,594	1,532	62
Cemetery	88,226	94,976	92,468	2,508
Buildings and grounds	69,505	71,005	58,789	12,216
Fiscal services	153,197	156,347	155,356	991
All other general government	50,610	107,560	88,507	19,053
<b>Public safety:</b>				
Police department	906,945	903,630	824,903	78,727
Fire department	249,737	246,759	210,742	36,017
Building inspection and regulation activities	250	915	857	58
<b>Public works:</b>				
Solid waste	199,607	220,607	219,086	1,521
Sidewalk replacement	341	347	345	2
Landfill closure	56,673	57,673	43,795	13,878
Department of public works	48,976	55,176	52,275	2,901
Drains	2,500	2,500	534	1,966
Street lights	48,252	60,252	59,763	489
<b>Community development:</b>				
Planning and zoning	37,000	56,800	35,751	21,049

City of Clare

Budgetary Comparison Schedule - General Fund (continued)

June 30, 2019

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Expenditures (continued)</b>				
Recreation and culture:				
Parks and recreation	\$ 322,590	\$ 323,390	\$ 298,674	\$ 24,716
Airport	172,479	172,479	159,076	13,403
Capital outlay:				
General government	5,000	2,250	88,792	(86,542)
Public safety	35,400	37,333	35,384	1,949
Recreation and culture	91,680	107,180	72,272	34,908
Debt service:				
Principal	79,893	81,867	81,862	5
Interest and fiscal charges	49,294	48,365	46,064	2,301
Total expenditures	<u>3,151,822</u>	<u>3,293,628</u>	<u>3,090,517</u>	<u>203,111</u>
Excess (deficiency) of revenues over expenditures	<u>(343,117)</u>	<u>(484,923)</u>	<u>(126,549)</u>	<u>358,374</u>
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	-	-	-
Transfers in	441,002	441,002	411,002	(30,000)
Transfers out	(451,632)	(451,632)	(421,632)	30,000
Total other financing sources (uses)	<u>(10,630)</u>	<u>(10,630)</u>	<u>(10,630)</u>	<u>-</u>
Net change in fund balances	(353,747)	(495,553)	(137,179)	358,374
Fund balances-beginning	881,994	881,994	881,994	-
Fund balances-ending	<u>\$ 528,247</u>	<u>\$ 386,441</u>	<u>\$ 744,815</u>	<u>\$ 358,374</u>

City of Clare

Budgetary Comparison Schedule - Major Streets Fund

June 30, 2019

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Federal revenue	\$ -	\$ -	\$ -	\$ -
State revenue	319,684	319,684	349,726	30,042
Interest earnings	450	450	1,916	1,466
Special assessments, net	1,002	1,002	-	(1,002)
Donations and contributions	-	-	-	-
Miscellaneous	-	-	2,501	2,501
<b>Total revenues</b>	<b>321,136</b>	<b>321,136</b>	<b>354,143</b>	<b>33,007</b>
<b>Expenditures</b>				
<b>Public works:</b>				
Wages	51,563	58,223	58,134	89
Payroll taxes	3,946	4,331	4,276	55
Fringe benefits	18,109	25,564	25,435	129
Retirement	12,046	13,596	13,512	84
Internal service fund - mobile	45,600	45,600	45,600	-
Operating supplies	12,000	13,450	10,879	2,571
Road salt	13,500	15,700	14,019	1,681
Professional and contractual services	6,200	9,400	7,061	2,339
Electricity	500	500	211	289
Professional services - trees	2,500	2,500	1,000	1,500
Miscellaneous	300	300	-	300
Capital Outlay	-	-	-	-
<b>Debt service:</b>				
Interest	1,125	1,125	-	1,125
<b>Total expenditures</b>	<b>167,389</b>	<b>190,289</b>	<b>180,127</b>	<b>10,162</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>153,747</b>	<b>130,847</b>	<b>174,016</b>	<b>43,169</b>
<b>Other financing sources (uses)</b>				
Transfers out	(102,000)	(102,000)	(102,000)	-
<b>Total other financing sources (uses)</b>	<b>(102,000)</b>	<b>(102,000)</b>	<b>(102,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>51,747</b>	<b>28,847</b>	<b>72,016</b>	<b>43,169</b>
Fund balances-beginning	182,727	182,727	182,727	-
<b>Fund balances-ending</b>	<b>\$ 234,474</b>	<b>\$ 211,574</b>	<b>\$ 254,743</b>	<b>\$ 43,169</b>

City of Clare

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2019

	Special Revenue			Debt Service	Permanent Cemetery	Total
	Local Street	Municipal Street	Drug Forfeiture	Public Safety	Perpetual Care	
<b>Assets</b>						
Cash and cash equivalents	\$ 11,263	\$ 7,179	\$ 3,559	\$ -	\$ 18,882	\$ 40,883
Investments	25,000	25,000	-	-	275,000	325,000
Accrued interest receivable	123	123	-	-	1,358	1,604
Assessments receivable, net	1,543	-	-	-	-	1,543
Due from other governmental units	19,511	-	-	-	-	19,511
Prepaid items	8,393	-	-	-	-	8,393
<b>Total assets</b>	<b>\$ 65,833</b>	<b>\$ 32,302</b>	<b>\$ 3,559</b>	<b>\$ -</b>	<b>\$ 295,240</b>	<b>\$ 396,934</b>
<b>Liabilities, deferred inflows of resources, and fund balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 2,339	\$ 62	\$ 1,314	\$ -	\$ -	\$ 3,715
Accrued liabilities	2,944	-	-	-	-	2,944
<b>Total liabilities</b>	<b>5,283</b>	<b>62</b>	<b>1,314</b>	<b>-</b>	<b>-</b>	<b>6,659</b>
<b>Deferred inflows of resources:</b>						
Unavailable revenue - long-term special assessments	1,543	-	-	-	-	1,543
<b>Total deferred inflows of resources</b>	<b>1,543</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,543</b>
<b>Fund balances:</b>						
Nonspendable - prepaid items	8,393	-	-	-	-	8,393
Nonspendable - cemetery perpetual care	-	-	-	-	287,665	287,665
Restricted - streets and highways	50,614	32,240	2,245	-	-	85,099
Assigned - cemetery	-	-	-	-	7,575	7,575
<b>Total fund balances</b>	<b>59,007</b>	<b>32,240</b>	<b>2,245</b>	<b>-</b>	<b>295,240</b>	<b>388,732</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 65,833</b>	<b>\$ 32,302</b>	<b>\$ 3,559</b>	<b>\$ -</b>	<b>\$ 295,240</b>	<b>\$ 396,934</b>

See accompanying notes.

City of Clare

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

June 30, 2019

	Special Revenue			Debt Service	Permanent Cemetery	Total
	Local Street	Municipal Street	Drug Forfeiture	Public Safety	Perpetual Care	
<b>Revenues</b>						
Property taxes and related fees	\$ 40	\$ 251,257	\$ -	\$ -	\$ -	\$ 251,297
State revenue	139,269	-	-	-	-	139,269
Charges for services	-	-	-	-	9,400	9,400
Interest earnings	289	392	4	-	3,390	4,075
Fines and forfeitures	-	-	2,720	-	-	2,720
Special assessments, net	1,548	-	-	-	-	1,548
Donations	1,000	-	-	-	-	1,000
Miscellaneous	1,727	-	-	-	-	1,727
Total revenues	143,873	251,649	2,724	-	12,790	411,036
<b>Expenditures</b>						
General government	-	-	-	-	-	-
Public safety	-	-	1,920	-	-	1,920
Public works	206,498	239,057	-	-	-	445,555
Capital outlay	8,737	-	-	-	-	8,737
Debt service:						
Principal	-	-	-	35,000	-	35,000
Interest and fiscal charges	-	-	-	16,631	-	16,631
Total expenditures	215,235	239,057	1,920	51,631	-	507,843
Excess (deficiency) of revenues over expenditures	(71,362)	12,592	804	(51,631)	12,790	(96,807)
<b>Other financing sources (uses)</b>						
Transfers in	100,000	-	-	51,630	-	151,630
Transfers out	(2,000)	-	-	-	(5,000)	(7,000)
Total other financing sources (uses)	98,000	-	-	51,630	(5,000)	144,630
Net change in fund balances	26,638	12,592	804	(1)	7,790	47,823
Fund balances-beginning	32,369	19,648	1,441	1	287,450	340,909
Fund balances-ending	\$ 59,007	\$ 32,240	\$ 2,245	\$ -	\$ 295,240	\$ 388,732

See accompanying notes.



City of Clare

Combining Statement of Net Position - Internal Service Funds

June 30, 2019

	<b>Data Processing</b>	<b>Mobile Equipment</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 24,113	\$ 19,209	\$ 43,322
Investments	45,000	20,000	65,000
Accounts receivable, net	-	2,312	2,312
Accrued interest receivable	222	98	320
Inventory	-	33,273	33,273
Prepaid items	-	3,634	3,634
Total current assets	<u>69,335</u>	<u>78,526</u>	<u>147,861</u>
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	146,527	146,527
Equipment, net	28,600	29,515	58,115
Vehicles, net	-	460,053	460,053
Total noncurrent assets	<u>28,600</u>	<u>721,095</u>	<u>749,695</u>
Total assets	<u><u>97,935</u></u>	<u><u>799,621</u></u>	<u><u>897,556</u></u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	339	705	1,044
Accrued expenses	-	2,528	2,528
Long-term liabilities:			
Due in one year	-	22,585	22,585
Due in more than one year	-	296,015	296,015
Total liabilities	<u>339</u>	<u>321,833</u>	<u>322,172</u>
<b>Net position</b>			
Invested in capital assets	28,600	402,495	431,095
Unrestricted	68,996	75,293	144,289
Total net position	<u><u>\$ 97,596</u></u>	<u><u>\$ 477,788</u></u>	<u><u>\$ 575,384</u></u>

City of Clare

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

June 30, 2019

	<b>Data Processing</b>	<b>Mobile Equipment</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 81,300	\$ 324,723	\$ 406,023
Miscellaneous	115	6,174	6,289
Total operating revenues	<u>81,415</u>	<u>330,897</u>	<u>412,312</u>
<b>Operating expenses</b>			
Salaries and wages	-	74,516	74,516
Payroll taxes	-	5,526	5,526
Employee benefits	-	24,559	24,559
Retirement	-	17,520	17,520
Supplies	4,038	67,375	71,413
Professional and contracted services	27,031	8,056	35,087
Insurance	1,181	11,888	13,069
Telephone and communications	-	3,869	3,869
Professional development	-	2,691	2,691
Utilities	-	19,392	19,392
Repair and maintenance	197	58,986	59,183
Miscellaneous	54	546	600
Depreciation	8,551	122,682	131,233
Total operating expenses	<u>41,052</u>	<u>417,606</u>	<u>458,658</u>
Operating income (loss)	40,363	(86,709)	(46,346)
<b>Nonoperating revenues (expenses)</b>			
Interest earnings	502	241	743
Other revenue	-	-	-
Gain on sale of assets	-	10,000	10,000
Interest expense	-	(2,365)	(2,365)
Total nonoperating revenues (expenses)	<u>502</u>	<u>7,876</u>	<u>8,378</u>
<b>Income (loss) before transfers</b>	40,865	(78,833)	(37,968)
<b>Transfers</b>			
Transfers in	-	-	-
Transfers out	(11,000)	(1,000)	(12,000)
Total transfers	<u>(11,000)</u>	<u>(1,000)</u>	<u>(12,000)</u>
Capital contributions	-	990	990
Total capital contributions	<u>-</u>	<u>990</u>	<u>990</u>
Changes in net position	29,865	(78,843)	(48,978)
Total net position-beginning	67,731	556,631	624,362
Total net position-ending	<u>\$ 97,596</u>	<u>\$ 477,788</u>	<u>\$ 575,384</u>

City of Clare

Combining Statement of Cash Flows - Internal Service Funds

June 30, 2019

	<b>Data</b>	<b>Mobile</b>	<b>Total</b>
	<b>Processing</b>	<b>Equipment</b>	
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 81,415	\$ 330,945	\$ 412,360
Payments to suppliers	(32,309)	(175,269)	(207,578)
Payments to employees	-	(122,015)	(122,015)
Net cash from operating activities	<u>49,106</u>	<u>33,661</u>	<u>82,767</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers out	(11,000)	(1,000)	(12,000)
Proceeds from equipment loan	-	215,100	215,100
Net cash from noncapital financing activities	<u>(11,000)</u>	<u>214,100</u>	<u>203,100</u>
<b>Cash flows from capital and related financing activities</b>			
Purchases and construction of capital assets	-	(251,980)	(251,980)
Capital contributions	-	990	990
Proceeds from the sale of capital assets	-	10,000	10,000
Principal payments	-	(11,500)	(11,500)
Interest paid on capital debt	-	(2,365)	(2,365)
Net cash from capital and related financing activities	<u>-</u>	<u>(254,855)</u>	<u>(254,855)</u>
<b>Cash flows from investing activities</b>			
Interest earnings	280	143	423
Purchase of investments	(25,000)	15,000	(10,000)
Net cash from investing activities	<u>(24,720)</u>	<u>15,143</u>	<u>(9,577)</u>
Net change in cash and cash equivalents	13,386	8,049	21,435
Cash and cash equivalents at beginning of year	10,727	11,160	21,887
Cash and cash equivalents at end of year	<u>\$ 24,113</u>	<u>\$ 19,209</u>	<u>\$ 43,322</u>
<b>Reconciliation of operating loss to net cash from operating activities:</b>			
Operating income (loss)	\$ 40,363	\$ (86,709)	\$ (46,346)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation expense	8,551	122,682	131,233
Change in assets and liabilities:			
Accounts receivable, net	-	48	48
Interest receivable	55	-	55
Inventory	-	(1,038)	(1,038)
Prepaid items	-	(266)	(266)
Accounts payable	137	(1,162)	(1,025)
Accrued expenses	-	106	106
Net cash from operating activities	<u>\$ 49,106</u>	<u>\$ 33,661</u>	<u>\$ 82,767</u>

City of Clare

Combining Balance Sheet - Fiduciary Funds

June 30, 2019

	<b>General Agency Fund</b>	<b>Current Tax Collection Fund</b>	<b>Payroll Imprest Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 2,181	\$ 40,484	\$ 42,665
Total assets	<u>\$ -</u>	<u>\$ 2,181</u>	<u>\$ 40,484</u>	<u>\$ 42,665</u>
<b>Liabilities</b>				
Accrued expenses	\$ -	\$ -	\$ 33,789	\$ 33,789
Due to other governmental units	-	2,181	6,695	8,876
Total liabilities	<u>\$ -</u>	<u>\$ 2,181</u>	<u>\$ 40,484</u>	<u>\$ 42,665</u>

City of Clare

Combining Balance Sheet - Component Units

June 30, 2019

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 39,283	\$ 4,609	\$ 43,892
Accounts receivable	-	-	-
Prepaid items	-	-	-
Total assets	<u>\$ 39,283</u>	<u>\$ 4,609</u>	<u>\$ 43,892</u>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 227	\$ -	\$ 227
Total liabilities	<u>227</u>	<u>-</u>	<u>227</u>
Fund balances:			
Restricted - debt service	39,056	-	39,056
Restricted - community development	-	4,609	4,609
Total fund balances	<u>39,056</u>	<u>4,609</u>	<u>43,665</u>
Total liabilities and fund balances	<u>\$ 39,283</u>	<u>\$ 4,609</u>	<u>\$ 43,892</u>

City of Clare

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

June 30, 2019

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Revenues</b>			
Property taxes and related fees	\$ 91,352	\$ -	\$ 91,352
State revenue	9,914	-	9,914
Interest earnings	95	9	104
Reimbursements	115	-	115
Donations	115	-	115
Total revenues	<u>101,591</u>	<u>9</u>	<u>101,600</u>
<b>Expenditures</b>			
Community development	19,670	-	19,670
Capital outlay	34,561	-	34,561
Debt service:			
Principal	27,000	-	27,000
Interest and related fees	9,440	-	9,440
Total expenditures	<u>90,671</u>	<u>-</u>	<u>90,671</u>
Net change in fund balances	10,920	9	10,929
Fund balances-beginning	28,136	4,600	32,736
Fund balances-ending	<u>\$ 39,056</u>	<u>\$ 4,609</u>	<u>\$ 43,665</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 2, 2019.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Midland, Michigan  
December 2, 2019

*Andrews Hooper Pavlik PLC*