

City of Mount Clemens, Michigan

Financial Report with Supplemental Information June 30, 2013

City of Mount Clemens, Michigan

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Independent Auditor's Report

To the Board of Directors
City of Mount Clemens, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City of Mount Clemens, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2013 and the respective changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
City of Mount Clemens, Michigan

Other Matters

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Clemens, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Morse, PLLC

September 24, 2013

City of Mount Clemens, Michigan

Management's Discussion and Analysis

Introduction

This discussion and analysis is included with the City of Mount Clemens' (the "City") financial report to provide an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements.

Overview of this Annual Report

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

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

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

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

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

	Governmental Activities			Percent
	2012	2013	Change	Change
Assets				
Other assets	\$ 7,228,267	\$ 6,400,789	\$ (827,478)	-11%
Capital assets	<u>12,922,476</u>	<u>11,920,051</u>	<u>(1,002,425)</u>	-8%
Total assets	20,150,743	18,320,840	(1,829,903)	-9%
Liabilities				
Current liabilities	300,586	205,719	(94,867)	-32%
Long-term liabilities	<u>6,139,822</u>	<u>6,835,654</u>	<u>695,832</u>	11%
Total liabilities	<u>6,440,408</u>	<u>7,041,373</u>	<u>600,965</u>	9%
Net Position				
Invested in capital assets	10,435,822	9,564,702	(871,120)	-8%
Restricted	2,068,871	1,935,080	(133,791)	-6%
Unrestricted	<u>1,205,642</u>	<u>(220,315)</u>	<u>(1,425,957)</u>	-118%
Total net position	<u>\$ 13,710,335</u>	<u>\$ 11,279,467</u>	<u>\$ (2,430,868)</u>	-18%

Total net position related to the City's governmental activities decreased by approximately \$2.43 million, which is an 18 percent decrease. This loss is due to a reduction in capital assets and an increase in postemployment benefits other than pension liability. The City continues to record its liability/asset in accordance with Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement's rules cause the government-wide statements to recognize the cost of providing retiree healthcare coverage, as well as any "other" postemployment benefits (other than pensions), over the working life of the employee, rather than at the time the healthcare premiums are paid. The method of accounting was implemented on June 30, 2009 and resulted in an additional liability recorded in the governmental activities of \$670,366 in the year of implementation, which has since increased to \$2.8 million.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities			
	2012	2013	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	\$ 1,181,757	\$ 1,086,822	\$ (94,935)	-8%
Operating grants	1,293,382	1,253,750	(39,632)	-3%
General revenue:				
Property taxes	5,368,546	4,957,073	(411,473)	-8%
State-shared revenue	1,605,906	1,666,010	60,104	4%
Investment earnings	20,505	9,568	(10,937)	-53%
Other revenue	1,071,675	733,573	(338,102)	-32%
Total revenue	10,541,771	9,706,796	(834,975)	-8%
Program Expenses				
General government	3,768,736	4,081,958	313,222	8%
Public safety	5,381,970	5,313,004	(68,966)	-1%
Public works	2,078,528	2,378,056	299,528	14%
Recreation and cultural	338,392	364,646	26,254	8%
Total expenses	11,567,626	12,137,664	570,038	5%
Change in Net Position	\$ (1,025,855)	\$ (2,430,868)	\$ (1,405,013)	137%

The City's four largest revenue items are property taxes, which total 51 percent of the revenue, state-shared revenue at 17 percent, operating grants at 12.9 percent, and charges for services at 11.2 percent.

Property taxes, the largest source of general government revenue, experienced a decrease of approximately 8 percent due to a decrease in taxable property values. Also, this year the City experienced a loss of \$222,000 due to refunds of prior year tax revenues from Michigan Tax Tribunal appeals. This was the third year the City experienced a decrease in property values (2012 included a 3 percent loss and 2011 included a 10 percent loss).

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

State-shared revenue, the City's second largest source of general government revenue, showed an approximately \$60,000 increase from the previous year, but still continues at the reduced levels of recent years. The amount received from the State of Michigan as of June 30, 2013 was \$1.67 million or 35 percent less than what the City received in the 2002 fiscal year. The continued sluggishness of the state's economy continues to directly impact revenue-sharing payments. The City realizes that there are no guarantees that further revenue-sharing cuts will not be made as the state's economy continues to impact the revenue-sharing payments. Public Act 63 of 2011 introduced the Economic Vitality Incentive Program (EVIP). An eligible city, village, or township will receive an amount for each of the three categories for which they fulfill the specific requirements. The three categories are accountability and transparency, consolidation of services, and employee compensation. The City's compliance with all three categories of the EVIP resulted in the City receiving the maximum amount available of \$513,702 of statutory revenue-sharing dollars.

In response to the declining revenue, the City reduced the full-time staff. Since 1999, the City has reduced staff from 159 to 67. To accomplish the reduction of the City employees, the City did not fill vacant positions resulting from retirement, and reorganized. In 2005, the City had a fund balance of only \$688,000. With the City's foresight and thorough review of processes and reorganization, the City was able to make several changes without increasing taxes or fees to the community. Savings were accomplished in part by the City disbanding the police department in 2005 and contracting with the Macomb County Sheriff's department. This contract will continue to provide long-lasting effects to the City's sustained success in providing public safety to its community.

In the City's General Fund, 46 percent of expenses are outsourced. Current outsourcing includes the City manager, assessor, engineering, legal services, information technology, recreation, the inspection department, and building maintenance, which includes janitorial services, cable TV in the schools, and parking lot snow removal. All of these outsourced services are continually reviewed to ensure the maximum savings for our community. By contracting these services, Mount Clemens' residents receive quality services while saving money and the City eliminates the legacy costs associated with these positions.

Other items affecting the General Fund were the City's involvement in Medicare Part D. To date, the City has secured \$492,079 in revenue related to this program.

Another item is the contribution by all employees toward their health insurance premiums, including the retirees who offered to change their plans. These contributions totaled approximately \$124,000 in 2013.

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

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Under governmental activities program expenses, public safety accounted for 44 percent of expenditures. General government is next most significant with expenditures of 34 percent, and finally public works making up 20 percent. Over the past five years, the City has experienced significantly lower public safety expenses as a result of contracting police services through the Macomb County Sheriff's department. The contract with the Macomb County Sheriff's department was renewed for an additional three years on January 1, 2012.

Business-type Activities

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior two years:

	Business-type Activities			Percent Change
	2012	2013	Change	
Assets				
Other assets	\$ 3,017,731	\$ 2,905,031	\$ (112,700)	-4%
Capital assets	<u>58,437,955</u>	<u>56,561,387</u>	<u>(1,876,568)</u>	-3%
Total assets	61,455,686	59,466,418	(1,989,268)	-3%
Liabilities				
Current liabilities	1,631,611	1,357,764	(273,847)	-17%
Long-term liabilities	<u>25,890,638</u>	<u>24,131,980</u>	<u>(1,758,658)</u>	-7%
Total liabilities	<u>27,522,249</u>	<u>25,489,744</u>	<u>(2,032,505)</u>	-7%
Net Position				
Net investment in capital assets	33,633,226	33,863,589	230,363	1%
Unrestricted	<u>300,211</u>	<u>113,085</u>	<u>(187,126)</u>	-62%
Total net position	<u>\$ 33,933,437</u>	<u>\$ 33,976,674</u>	<u>\$ 43,237</u>	0%

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

	Business-type Activities			Percent Change
	2012	2013	Change	
Operating Revenue	\$ 10,094,600	\$ 9,757,140	\$ (337,460)	-3%
Operating Expenses - Other than depreciation	6,755,194	6,821,628	66,434	1%
Depreciation and Amortization	<u>2,332,908</u>	<u>2,358,971</u>	<u>26,063</u>	1%
Operating income	1,006,498	576,541	(429,957)	
Property Tax Revenue	-	99,694	99,694	100%
Interest Income	16,413	9,073	(7,340)	-45%
Interest Expense	<u>904,585</u>	<u>642,071</u>	<u>(262,514)</u>	(0)
Change in Net Position	<u>\$ 118,326</u>	<u>\$ 43,237</u>	<u>\$ (75,089)</u>	-63%

The City's business-type activities include water, sewer, sanitation, auto parking, and the Ice Arena. The City provides water and sewer services through its own water plant and sewage treatment plant. The ice arena is owned by the City, but is operated by a management company, and has provided the funds to cover all expenses including the bond issue for the building of the arena. These bonds were defeased in a previous year to lower the interest rate for a savings to the City, the management company, and the customers.

Water and Sewer Fund - The Water and Sewer Activity's financial performance has been sound but has also faced some financial difficulties due to capital projects, a decline in consumption, and recording the liability of postemployment benefits other than pensions. Due to financial difficulties, the City reviews the rates annually. Rates were increased by 10.6 percent in 2010, 5.56 percent in 2012, and 1.75 percent in 2013. Expenses are continuously reviewed and discussed with the City Commission.

In reviewing the City's net assets of business-type activities, the net investment in capital assets increased by 1 percent. Liabilities were also reduced by 7 percent due to the reduction of long-term debt. Total net assets of the business-type activities showed a slight increase of \$24,000.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

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

The General Fund pays for most of the City's governmental services. The most significant services of 2013 were police (\$2.36 million), fire (\$1.34 million), and general government services of \$2.0 million.

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

	Governmental Funds				
	2011	2012	2013	Change	Percent Change
Revenue					
Property taxes and income taxes	\$ 5,506,315	\$ 5,329,171	\$ 4,926,112	\$ (403,059)	-8%
Charges for services	1,088,532	1,117,945	1,063,581	(54,364)	-5%
Licenses and permits	301,368	276,485	269,187	(7,298)	-3%
State-shared revenues	1,782,694	1,605,906	1,666,010	60,104	4%
Act 51 funding	629,349	642,958	650,439	7,481	1%
Federal, state, and local grants	613,339	588,237	591,830	3,593	1%
Fines and forfeitures	190,578	179,717	113,214	(66,503)	-37%
Interest and rentals	23,814	20,410	9,394	(11,016)	-54%
Special assessments	42,156	41,365	60,834	19,469	47%
Other	266,197	761,167	364,039	(397,128)	-52%
Total revenue	10,444,342	10,563,361	9,714,640	(848,721)	-8%
Expenditures					
Current:					
General government	2,098,144	1,952,457	2,005,837	53,380	3%
Public safety	4,610,957	4,314,855	4,305,225	(9,630)	0%
Public works	2,448,716	1,953,827	2,109,834	156,007	8%
Recreation and culture	259,206	209,821	226,080	16,259	8%
Other functions	1,863,431	1,690,229	1,720,967	30,738	2%
Total expenditures	11,280,454	10,121,189	10,367,943	246,754	2%
Excess of Revenue (Under) Over Expenditures	(836,112)	442,172	(653,303)	(1,095,475)	-248%
Transfers - Net	93,492	-	-	-	0%
Net Change in Fund Balance	(742,620)	442,172	(653,303)	(1,095,475)	-248%
Fund Balances - Beginning of year	6,110,090	5,367,470	5,809,642	442,172	8%
Fund Balances - End of year	\$ 5,367,470	\$ 5,809,642	\$ 5,156,339	\$ (653,303)	-11%

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. In revenue, the most significant changes from the prior year were the decrease in property taxes of \$403,059 (an 8 percent loss) and the increase in State-shared revenue of \$60,100. The City also lost parking fines and fees and ordinance fees in the amount of \$66,500.

Overall, the City was able to hold the increase in expenditures to 2 percent; however, the total net change in fund balance was a decrease of \$653,303.

Capital Asset and Debt Administration

In a prior year, the City recorded its interest in debt related to the construction of the new 41B District Court building. Debt to finance the building was issued by the Charter Township of Clinton and is allocated among participating communities in proportion to the volume of cases attributable to each community. The City's portion of the debt at June 30, 2013 is \$1,371,000.

In the current year, the City did not issue any new debt nor were there any changes to existing debt obligations other than payment of scheduled principal payments. Please see Note 7 - Long-term Debt for additional information.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face difficulty in balancing its budget due to inherent limitations on its primary sources of revenue. The three major funding sources for the City are property taxes, State-shared revenue, and fees and charges, all of which are subject to limitations. Property tax revenue has decreased and is expected to again experience a small decrease in the next fiscal year and then is expected to begin increasing slightly in the following years. State-shared revenue has shown a slight increase and the City has projected slight increases for the future years. The City will continue to be proactive and creative in building next year's budget. Through the use of long-term planning, the City will evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events. During the fiscal year, the City complied with Public Act 152 (Publicly Funded Health Insurance Contribution Act), which was enacted to limit a public employer's expenditures for employee medical benefit plans. The City opted for the "hardcap" provision which caps the employer contributions to medical benefit plans offered to employees. Other significant issues that have been taken into account are increases in healthcare costs, funding for the liability of future retiree healthcare expenditures, foreclosure rates, the decrease in property values, and the State of Michigan's policy decision to shift revenue-sharing funding from municipalities.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (586) 469-6818.

City of Mount Clemens, Michigan

Statement of Net Position June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 4,067,638	\$ 1,399,845	\$ 5,467,483	\$ 258,505
Investments (Note 3)	-	282,109	282,109	-
Receivables:				
Property taxes receivable	114,095	-	114,095	-
Customers	-	1,380,624	1,380,624	245
Accrued interest receivable	940	18,834	19,774	-
Other receivables	362,999	77,645	440,644	-
Due from other governmental units (Note 4)	531,143	-	531,143	1,616
Allowance for doubtful accounts	(60,000)	-	(60,000)	-
Internal balances (Note 6)	594,846	(594,846)	-	-
Inventories	-	6,694	6,694	-
Prepaid expenses	214,386	69,591	283,977	-
Restricted assets	-	212,258	212,258	-
Investment in joint ventures (Note 12)	574,742	-	574,742	-
Capital assets (Note 5):				
Assets not subject to depreciation	2,791,978	3,637,078	6,429,056	151,892
Assets subject to depreciation	9,128,073	52,924,309	62,052,382	-
Other assets	-	52,277	52,277	-
Total assets	18,320,840	59,466,418	77,787,258	412,258
Liabilities				
Accounts payable	110,062	176,339	286,401	25,560
Due to other governmental units	283	-	283	-
Accrued liabilities and other	95,374	969,167	1,064,541	-
Noncurrent liabilities:				
Due within one year (Note 7):				
Payable from restricted assets	-	212,258	212,258	-
Compensated absences	300,000	-	300,000	-
Current portion of long-term debt	135,171	2,488,798	2,623,969	-
Due in more than one year:				
Compensated absences (Note 7)	486,340	155,019	641,359	-
Accrued settlement (Note 8)	274,008	-	274,008	-
Net OPEB obligation (Note 11)	2,785,920	1,229,449	4,015,369	-
Net pension obligation (Note 10)	634,037	-	634,037	-
Long-term debt (Note 7)	2,220,178	20,258,714	22,478,892	-
Total liabilities	7,041,373	25,489,744	32,531,117	25,560
Net Position				
Net investment in capital assets	9,564,702	33,863,589	43,428,291	151,892
Restricted for:				
Streets	1,311,100	-	1,311,100	-
Debt service	378,592	-	378,592	-
Transportation	223,988	-	223,988	-
Public improvement	21,400	-	21,400	-
Unrestricted	(220,315)	113,085	(107,230)	234,806
Total net position	\$ 11,279,467	\$ 33,976,674	\$ 45,256,141	\$ 386,698

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

City of Mount Clemens, Michigan

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 4,081,958	\$ 497,902	\$ 76,467
Public safety	5,313,004	385,820	2,000
Public works	2,378,056	104,401	1,173,876
Recreation and culture	364,646	98,699	1,407
Total governmental activities	12,137,664	1,086,822	1,253,750
Business-type activities:			
Sewage disposal system	4,333,963	3,972,222	-
Water supply system	2,650,589	2,937,520	-
Sanitary system	897,200	811,799	-
Automobile parking system	537,027	529,911	-
Ice arena	1,403,891	1,505,688	-
Total business-type activities	9,822,670	9,757,140	-
Total primary government	<u>\$ 21,960,334</u>	<u>\$ 10,843,962</u>	<u>\$ 1,253,750</u>
Component unit - Downtown Development Authority	<u>\$ 322,653</u>	<u>\$ 81,331</u>	<u>\$ -</u>
General revenue:			
Property taxes			
State-shared revenue			
Unrestricted investment earnings			
Franchise fees			
Miscellaneous			
Total general revenue			
Change in Net Position			
Net Position - Beginning of year			
Net Position - End of year			

Statement of Activities Year Ended June 30, 2013

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,507,589)	\$ -	\$ (3,507,589)	\$ -
(4,925,184)	-	(4,925,184)	-
(1,099,779)	-	(1,099,779)	-
(264,540)	-	(264,540)	-
(9,797,092)	-	(9,797,092)	-
-	(361,741)	(361,741)	-
-	286,931	286,931	-
-	(85,401)	(85,401)	-
-	(7,116)	(7,116)	-
-	101,797	101,797	-
-	(65,530)	(65,530)	-
(9,797,092)	(65,530)	(9,862,622)	-
-	-	-	(241,322)
4,957,073	99,694	5,056,767	231,852
1,666,010	-	1,666,010	-
9,568	9,073	18,641	737
225,802	-	225,802	-
507,771	-	507,771	768
7,366,224	108,767	7,474,991	233,357
(2,430,868)	43,237	(2,387,631)	(7,965)
13,710,335	33,933,437	47,643,772	394,663
\$ 11,279,467	\$ 33,976,674	\$ 45,256,141	\$ 386,698

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2013

	Major Fund - General Fund	Nonmajor Funds	Total
Assets			
Cash and cash equivalents	\$ 2,344,750	\$ 1,521,410	\$ 3,866,160
Receivables:			
Taxes	114,095	-	114,095
Accrued interest receivable	390	550	940
Other receivables	349,057	10,842	359,899
Other governmental units (Note 4)	358,073	173,070	531,143
Allowance for doubtful accounts	(60,000)	-	(60,000)
Advances to other funds (Note 6)	594,846	-	594,846
Prepaid expenses	195,070	11,427	206,497
Total assets	<u>\$ 3,896,281</u>	<u>\$ 1,717,299</u>	<u>\$ 5,613,580</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 66,560	\$ 37,878	\$ 104,438
Due to other governmental units	283	-	283
Accrued and other liabilities	69,801	22,933	92,734
Deferred revenue (Note 4)	259,786	-	259,786
Total liabilities	396,430	60,811	457,241
Fund Balances			
Nonspendable:			
Prepays	195,070	11,427	206,497
Long-term receivable	594,846	-	594,846
Restricted:			
Right-of-way maintenance	-	216,197	216,197
Street construction	-	1,094,903	1,094,903
Transportation	-	212,561	212,561
Public improvement	-	21,400	21,400
Assigned:			
Subsequent year's budget	534,771	-	534,771
Local street construction	-	100,000	100,000
Unassigned	2,175,164	-	2,175,164
Total fund balances	<u>3,499,851</u>	<u>1,656,488</u>	<u>5,156,339</u>
Total liabilities and fund balances	<u>\$ 3,896,281</u>	<u>\$ 1,717,299</u>	<u>\$ 5,613,580</u>

City of Mount Clemens, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2013

Fund Balance Reported in Governmental Funds	\$ 5,156,339
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	10,726,834
Investments in joint ventures are not financial resources and are not reported in the funds	574,742
Certain receivables are expected to be collected over several years and are not available	259,786
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(2,040,000)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(747,454)
Underpayment of actuarially determined pension contributions is not reported as liabilities in the funds	(634,037)
The current cost of other postemployment benefits is not due and payable in the current period and is not reported in the funds	(2,785,920)
Other long-term liabilities, such as claims and judgments, landfill closure and postclosure costs, and net pension obligations, do not present a claim on current financial resources and are not reported as fund liabilities	(274,008)
Internal Service Funds are included as part of governmental activities	<u>1,043,185</u>
Net Position of Governmental Activities	<u>\$ 11,279,467</u>

City of Mount Clemens, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

	Major Fund - General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	\$ 4,627,376	\$ 298,736	\$ 4,926,112
Licenses and permits	269,187	-	269,187
Federal entitlement and grant revenue	198,854	-	198,854
State-shared grants and other revenue	1,689,811	1,019,614	2,709,425
Charges for services	939,559	124,022	1,063,581
Fines and fees	113,214	-	113,214
Investment income	4,067	5,327	9,394
Other revenue:			
Special assessments	-	60,834	60,834
Other miscellaneous revenue	356,719	7,320	364,039
Total revenue	<u>8,198,787</u>	<u>1,515,853</u>	<u>9,714,640</u>
Expenditures - Current			
General government	2,005,837	-	2,005,837
Public safety	4,305,225	-	4,305,225
Public works	583,713	1,526,121	2,109,834
Recreation	226,080	-	226,080
Other functions	1,720,967	-	1,720,967
Total expenditures	<u>8,841,822</u>	<u>1,526,121</u>	<u>10,367,943</u>
Excess of Expenditures Over Revenue	(643,035)	(10,268)	(653,303)
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	70,000	70,000
Transfers out (Note 6)	-	(70,000)	(70,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(643,035)	(10,268)	(653,303)
Fund Balances - Beginning of year	<u>4,142,886</u>	<u>1,666,756</u>	<u>5,809,642</u>
Fund Balances - End of year	<u><u>\$ 3,499,851</u></u>	<u><u>\$ 1,656,488</u></u>	<u><u>\$ 5,156,339</u></u>

City of Mount Clemens, Michigan

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$ (653,303)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	41,422
Depreciation expense	(578,863)
Adjustment of court building value	(255,000)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	6,845
---	-------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	51,000
---	--------

Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	9,294
---	-------

Contributions to fund employee pensions made below actuarially determined amounts are not reported as assets in the funds	(223,484)
---	-----------

The current cost of other postemployment benefits is recorded when incurred in the statement of activities	(669,133)
--	-----------

Losses from joint ventures are not recorded in the funds	(27,441)
--	----------

Expenses related to claims and similar liabilities are recognized when incurred in the funds	55,192
--	--------

Internal Service Funds are included as part of governmental activities	<u>(187,397)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (2,430,868)</u></u>
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City of Mount Clemens, Michigan

	Enterprise Funds			
	Sewage Disposal System	Water Supply System	Sanitary Department	Automobile Parking System
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 799,808	\$ -	\$ 342,624	\$ 90,356
Investments (Note 3)	-	-	282,109	-
Receivables:				
Customers	810,944	569,604	76	-
Accrued interest receivable	365	340	-	-
Other receivables	53,390	7,854	10,142	6,259
Inventory	6,694	-	-	-
Prepaid expenses and other assets	32,421	27,496	5,751	3,923
Total current assets	1,703,622	605,294	640,702	100,538
Noncurrent assets:				
Restricted assets	-	212,258	-	-
Advances to other funds (Note 6)	708,549	-	-	-
Capital assets (Note 5):				
Assets not subject to depreciation	-	-	-	3,637,078
Assets subject to depreciation	34,082,723	14,092,874	-	1,923,994
Other assets	-	-	-	52,277
Total noncurrent assets	34,791,272	14,305,132	-	5,613,349
Total assets	36,494,894	14,910,426	640,702	5,713,887
Liabilities				
Current liabilities:				
Accounts payable	21,863	23,856	68,496	1,648
Accrued liabilities and other	819,601	11,496	4,372	83,058
Current portion of long-term debt (Note 7)	1,193,342	695,456	-	250,000
Total current liabilities	2,034,806	730,808	72,868	334,706
Noncurrent liabilities:				
Advances from other funds (Note 6)	-	708,549	-	-
Payable from restricted assets (Note 7)	-	212,258	-	-
Compensated absences (Note 7)	61,343	73,086	13,322	7,268
Net OPEB obligation (Note 11)	667,881	561,568	-	-
Long-term debt - Net of current portion (Note 7)	8,335,367	7,638,343	-	3,550,000
Total noncurrent liabilities	9,064,591	9,193,804	13,322	3,557,268
Total liabilities	11,099,397	9,924,612	86,190	3,891,974
Net Position				
Net investment in capital assets	24,554,014	5,808,789	-	1,761,072
Unrestricted	841,483	(822,975)	554,512	60,841
Total net position	\$ 25,395,497	\$ 4,985,814	\$ 554,512	\$ 1,821,913

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

Proprietary Funds
Statement of Net Position
June 30, 2013

Enterprise Funds		Governmental Activities
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund
\$ 167,057	\$ 1,399,845	\$ 201,478
-	282,109	-
-	1,380,624	-
18,129	18,834	-
-	77,645	3,100
-	6,694	-
-	69,591	7,889
185,186	3,235,342	212,467
-	212,258	-
-	708,549	-
-	3,637,078	-
2,824,718	52,924,309	1,193,217
-	52,277	-
2,824,718	57,534,471	1,193,217
3,009,904	60,769,813	1,405,684
60,476	176,339	5,624
50,640	969,167	2,640
350,000	2,488,798	84,171
461,116	3,634,304	92,435
594,846	1,303,395	-
-	212,258	-
-	155,019	38,886
-	1,229,449	-
735,004	20,258,714	231,178
1,329,850	23,158,835	270,064
1,790,966	26,793,139	362,499
1,739,714	33,863,589	877,868
(520,776)	113,085	165,317
\$ 1,218,938	\$ 33,976,674	\$ 1,043,185

City of Mount Clemens, Michigan

	Enterprise Funds			
	Sewage Disposal System	Water Supply System	Sanitary Department	Automobile Parking System
Operating Revenue				
Customer billings	\$ 3,950,962	\$ 2,785,209	\$ 775,096	\$ 528,093
Billings to other funds	-	-	-	-
Other revenue	21,260	152,311	36,703	1,818
Total operating revenue	3,972,222	2,937,520	811,799	529,911
Operating Expenses				
Cost of materials	111,930	150,301	7,375	4,184
Water supply and sewage disposal	1,722,810	1,158,016	-	-
Maintenance and operations	-	-	839,825	230,331
General and administrative	888,617	506,762	50,000	-
Depreciation and amortization	1,344,403	614,898	-	221,508
Total operating expenses	4,067,760	2,429,977	897,200	456,023
Operating (Loss) Income	(95,538)	507,543	(85,401)	73,888
Nonoperating Revenue (Expense)				
Property tax revenue	-	-	99,694	-
Investment income	2,069	1,412	2,240	330
Interest expense	(266,203)	(220,612)	-	(81,004)
Total nonoperating (expense) revenue	(264,134)	(219,200)	101,934	(80,674)
Change in Net Position	(359,672)	288,343	16,533	(6,786)
Net Position - Beginning of year	25,755,169	4,697,471	537,979	1,828,699
Net Position - End of year	\$25,395,497	\$ 4,985,814	\$ 554,512	\$ 1,821,913

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2013

Enterprise Funds		Governmental Activities
		Proprietary Internal Service Fund
Ice Arena	Total	
\$ 1,505,688	\$ 9,545,048	\$ -
-	-	696,575
-	212,092	4,301
1,505,688	9,757,140	700,876
91,345	365,135	207,060
-	2,880,826	-
979,687	2,049,843	326,110
80,445	1,525,824	100,281
178,162	2,358,971	235,593
1,329,639	9,180,599	869,044
176,049	576,541	(168,168)
-	99,694	-
3,022	9,073	174
(74,252)	(642,071)	(19,403)
(71,230)	(533,304)	(19,229)
104,819	43,237	(187,397)
1,114,119	33,933,437	1,230,582
\$ 1,218,938	\$33,976,674	\$ 1,043,185

City of Mount Clemens, Michigan

	Enterprise Funds			
	Sewage Disposal System	Water Supply System	Sanitary Department	Automobile Parking System
Cash Flows from Operating Activities				
Receipts from customers	\$ 4,053,319	\$ 2,900,283	\$ 775,096	\$ 539,510
Payments to suppliers	(1,472,329)	(906,789)	(699,853)	55,173
Payments to employees	(978,141)	(780,883)	(147,932)	(433,484)
Other receipts	42,585	149,732	45,904	1,819
Net cash provided by (used in) operating activities	1,645,434	1,362,343	(26,785)	163,018
Cash Flows from Noncapital Financing Activities -				
Property taxes not restricted for capital activities	-	-	99,694	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(187,289)	(163,647)	-	-
Principal and interest paid on capital debt	(1,443,043)	(1,078,235)	-	(73,195)
Net cash used in capital and related financing activities	(1,630,332)	(1,241,882)	-	(73,195)
Cash Flows from Investment Activities				
Interest received on investments	2,069	1,410	3,014	533
Proceeds from sale and maturities of investment securities	-	-	(2,437)	-
Net cash provided by (used in) investing activities	2,069	1,410	577	533
Net Increase (Decrease) in Cash and Cash Equivalents	17,171	121,871	73,486	90,356
Cash and Cash Equivalents - Beginning of year	782,637	90,387	269,138	-
Cash and Cash Equivalents - End of year	\$ 799,808	\$ 212,258	\$ 342,624	\$ 90,356
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 799,808	\$ -	\$ 342,624	\$ 90,356
Restricted cash	-	212,258	-	-
Total cash and cash equivalents	\$ 799,808	\$ 212,258	\$ 342,624	\$ 90,356
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (95,538)	\$ 507,543	\$ (85,401)	\$ 73,888
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	1,344,403	614,898	-	221,508
Changes in assets and liabilities:				
Receivables	123,682	112,495	9,201	11,418
Prepaid and other assets	2,445	949	968	(4,861)
Accounts payable	714	(1,678)	48,691	(939)
Accrued and other liabilities	269,728	128,136	(244)	(137,996)
Net cash provided by (used in) operating activities	\$ 1,645,434	\$ 1,362,343	\$ (26,785)	\$ 163,018

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2013**

Enterprise Funds		Governmental Activities
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund
\$ 1,506,727	\$ 9,774,935	\$ 697,740
(628,756)	(3,652,554)	(413,890)
(485,879)	(2,826,319)	(218,043)
-	240,040	4,300
392,092	3,536,102	70,107
-	99,694	-
(126,239)	(477,175)	(25,609)
(418,129)	(3,012,602)	(100,702)
(544,368)	(3,489,777)	(126,311)
(15,107)	(8,081)	174
-	(2,437)	-
(15,107)	(10,518)	174
(167,383)	135,501	(56,030)
334,440	1,476,602	257,508
\$ 167,057	\$ 1,612,103	\$ 201,478
\$ 167,057	\$ 1,399,845	\$ 201,478
-	212,258	-
\$ 167,057	\$ 1,612,103	\$ 201,478
\$ 176,049	\$ 576,541	\$ (168,168)
178,162	2,358,971	235,593
1,039	257,835	1,164
-	(499)	525
34,298	81,086	1,188
2,544	262,168	(195)
\$ 392,092	\$ 3,536,102	\$ 70,107

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

	Pension and Other Employee Benefits Trust Fund	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 299,001	\$ 179,344
Investments (Note 3):		
U.S. government securities	1,360,516	-
Commercial paper	20,972,302	-
Common stock	18,500,404	-
Corporate bonds	7,010,419	-
U.S. mortgage-backed securities	2,805,370	-
U.S. collateralized mortgage obligations	1,632,648	-
Corporate asset-backed securities	1,521,849	-
Corporate collateralized mortgage obligations	3,049,571	-
Private placement bonds	284,542	-
Receivables:		
Miscellaneous	-	3,000
Accrued interest receivable	128,992	-
Total assets	57,565,614	<u><u>\$ 182,344</u></u>
Liabilities		
Accounts payable	16,408	\$ -
Due to other governmental units	-	7,562
Cash bonds and deposits	-	174,782
Total liabilities	16,408	<u><u>\$ 182,344</u></u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u><u>\$ 57,549,206</u></u>	

City of Mount Clemens, Michigan

Fiduciary Funds

Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefits Trust Fund Year Ended June 30, 2013

	Pension and Other Employee Benefits Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,650,543
Net increase in fair value of investments	5,725,070
Investment-related expenses	(219,827)
Net investment income	7,155,786
Contributions:	
Employer	520,114
Employee	264,588
Total contributions	784,702
Total additions	7,940,488
Deductions	
Benefit payments	4,340,659
Refunds of contributions	91,532
Total deductions	4,432,191
Net Increase in Net Position Held in Trust	3,508,297
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	54,040,909
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 57,549,206

City of Mount Clemens, Michigan

Component Unit Statement of Net Position June 30, 2013

	Downtown Development Authority
Assets	
Cash and cash equivalents	\$ 258,505
Receivables:	
Receivables from sales to customers on account	245
Due from other governmental units	1,616
Capital assets not subject to depreciation	<u>151,892</u>
Total assets	412,258
Liabilities - Accounts payable	<u>25,560</u>
Net Position	
Net investment in capital assets	151,892
Unrestricted	<u>234,806</u>
Total net position	<u><u>\$ 386,698</u></u>

City of Mount Clemens, Michigan

Component Units Statement of Activities Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Downtown Development Authority	\$ 322,653	\$ 81,331	\$ -	\$ -
				\$ (241,322)
General revenue:				
Property taxes				231,852
Investment income				737
Charges for services				768
Total general revenues				233,357
Change in Net Position				(7,965)
Net Position - Beginning of year				394,663
Net Position - End of year				\$ 386,698

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Mount Clemens, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies used by the City of Mount Clemens, Michigan:

Reporting Entity

The City of Mount Clemens, Michigan is governed by an elected seven-member commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

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

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

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

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

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note I - Nature of Business and Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note I - Nature of Business and Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

General Fund - The General Fund is the City'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:

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection and disposal system.

Water Supply System Fund - The Water Supply System Fund accounts for the activities of the water distribution system.

Sanitary Department Fund - The Sanitary Department Fund accounts for the City's garbage and rubbish disposal activities.

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the City's metered on-street and parking lot activities.

Ice Arena Fund - The Ice Arena Fund accounts for the City's ice arena operations.

Additionally, the City reports the following internal service and fiduciary activities:

Internal Service Funds - The Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefits Trust Fund - The Pension and Other Employee Benefits Trust Fund accounts for the accumulation of resources for pension benefit payments to substantially all City employees.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, then unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2012 tax is levied and collectible on July 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

Note I - Nature of Business and Significant Accounting Policies (Continued)

The 2012 taxable valuation of the City totaled \$330.0 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 13.7097 mills for operating purposes, 0.9137 mills for police and fire pension, 0.9137 mills for Dial-A-Ride services, 0.1480 mills for municipal improvements, and 0.3000 mills for Sanitation services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$4.5 million for operating purposes, \$301,000 for police and fire pension, \$301,000 for Dial-A-Ride services, \$49,000 for municipal improvements, and \$99,000 for sanitation services. These amounts are recognized in the respective General, Special Revenue, and Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

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

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as 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 costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Outstanding bonds in the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., water supply and sewage disposal systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Roads and bridges	25 to 40 years
Sidewalks	20 years
Buildings and building improvements	40 to 50 years
Land improvements	10 to 20 years
Machinery and equipment	5 to 15 years
Plant facilities	50 to 66 years
Production facilities	20 to 66 years
Transmission facilities	50 years
Tunnels and retention basins	50 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts and the deferred amount on refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of these amounts. 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Commission for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Honorable Mayor and City Commission
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 2 - Stewardship, Compliance, and Accountability

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

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

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

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

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

Shortfall at July 1, 2012		\$ (1,223,239)
Current year permit revenue		227,448
Related expenses:		
Direct costs	\$ 155,353	
Estimated indirect costs	<u>15,535</u>	<u>170,888</u>
Current year surplus		<u>56,560</u>
Cumulative shortfall at June 30, 2013		<u>\$ (1,166,679)</u>

Fund Deficits - The City has accumulated a deficit of unrestricted net position in the water supply system and ice arena individual funds. Plans to eliminate the deficits have been filed with the State of Michigan Local Audit Finance Division.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

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

Noncompliance with Legal or Contractual Provisions - At June 30, 2013, the City was not in compliance with the provisions of water supply revenue bond covenants, which require cash and cash equivalents to be accumulated in a restricted account. In addition, as disclosed in Note 10, the City did not fully fund the recommended pension contribution as determined by the actuary which violates Article 9 of the Michigan Constitution.

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

	<u>Final Budget</u>	<u>Actual</u>
General Fund:		
Legal services	\$ 135,000	\$ 136,238
Fire	1,343,497	1,346,083
Parks and stadium	174,800	198,457

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The City does not have a separate investment policy for its pension funds; however, the City does follow the State Pension Act limits.

The City's investment policy adopted by the commission limits investments to those listed under the State's statutory authority as noted above. At June 30, 2013, the City's deposits and investments are in accordance with statutory authority.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned to it. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had \$4.31 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits or invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

Investment Type	Fair Value of	
	Pension Trust	
	Funds	How Held
Common stock	\$ 18,500,404	Counterparty
Mutual funds	20,972,302	Counterparty
Corporate bonds	7,010,419	Counterparty
Corporate asset-backed securities	1,521,849	Counterparty
Corporate collateralized mortgage obligations	3,049,571	Counterparty
U.S. government collateralized mortgage obligations	1,632,648	Counterparty
U.S. government mortgage-backed securities	2,805,370	Counterparty
U.S. government treasuries, notes, and bonds	1,127,618	Counterparty
Private placement	284,542	Counterparty
Other municipal	232,898	Counterparty

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

At year end, the City had the following investments:

Investment	Fair Value of Pension Trust Funds	Weighted Average Maturity (Years)
Corporate asset-backed	\$ 1,521,849	7.83 years
Corporate bonds	7,010,419	7.59 years
Corporate collateralized mortgage obligations	3,049,571	26.16 years
U.S. government collateralized mortgage obligations	1,632,648	10.51 years
U.S. government mortgage-backed	2,805,370	31.62 years
U.S. government treasuries, notes, and bonds	1,127,618	24.42 years
Private placement	284,542	9.65 years
Other municipal	232,898	14.73 years
Total	<u>\$ 17,664,915</u>	

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

Investment	S&P: AAA-A	S&P: BBB-B	Not Rated
Corporate asset-backed	\$ 1,171,609	\$ -	\$ 350,240
Corporate bonds	3,258,659	3,751,760	-
Corporate collateralized mortgage obligations	1,487,571	1,010,320	551,680
Private placements	137,977	146,565	-
U.S. government collateralized mortgage obligations	-	-	1,632,648
U.S. government mortgage-backed	-	-	2,805,370
U.S. government treasuries, notes, and bonds	132,523	-	995,095
Municipal	232,898	-	-
Total	<u>\$ 6,421,237</u>	<u>\$ 4,908,645</u>	<u>\$ 6,335,033</u>

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

The City and City's Pension Fund do not limit investments in any one issuer. At June 30, 2013, the City's Pension Fund maintained investments in Loomis Sayles Global Equity and Income Fund totaling approximately 13.61 percent of the Pension Fund's total investments, Loomis Sayles Small Cap Value Fund totaling approximately 8.21 percent of the Pension Fund's total investments, and Loomis Sayles Capital Income Fund totaling 9.93 percent of the Pension Fund's total investments.

Note 4 - Receivables and Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds Unavailable
Personal property taxes levied but not available to pay for current expenditures	\$ 99,295
Other grants/revenue earned but not available to pay for current expenditures	160,491
Total	<u>\$ 259,786</u>

The following is the detail of the governmental activities due from other governmental units at June 30, 2012:

	General Fund	Other Nonmajor Funds	Total
State of Michigan	\$ 275,000	\$ 166,349	\$ 441,349
Other	83,073	6,721	89,794
Total	<u>\$ 358,073</u>	<u>\$ 173,070</u>	<u>\$ 531,143</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets

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

	Balance July 1, 2012	Additions	Disposals/ Adjustments	Balance June 30, 2013
Governmental Activities				
Capital assets not being depreciated - Land	\$ 2,791,978	\$ -	\$ -	\$ 2,791,978
Capital assets being depreciated:				
Sidewalks and other intangible rights	1,758,592	-	-	1,758,592
Buildings and improvements	6,815,113	-	(225,000)	6,590,113
Machinery and equipment	6,915,906	48,911	-	6,964,817
Land improvements	2,960,083	18,120	-	2,978,203
Roads and bridges	9,758,841	-	-	9,758,841
Subtotal	28,208,535	67,031	(225,000)	28,050,566
Accumulated depreciation:				
Sidewalks	1,510,118	45,588	-	1,555,706
Buildings and improvements	2,605,925	82,839	-	2,688,764
Machinery and equipment	5,312,929	329,623	-	5,642,552
Land improvements	2,626,810	35,489	-	2,662,299
Roads and bridges	6,022,255	320,917	-	6,343,172
Subtotal	18,078,037	814,456	-	18,892,493
Net capital assets being depreciated	10,130,498	(747,425)	(225,000)	9,158,073
Net capital assets	\$ 12,922,476	\$ (747,425)	\$ (225,000)	\$ 11,950,051

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2012	Additions	Disposals/ Adjustments	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 3,637,078	\$ -	\$ -	\$ 3,637,078
Construction in progress	369,626	-	(369,626)	-
Subtotal	4,006,704	-	(369,626)	3,637,078
Capital assets being depreciated:				
Plant facilities	24,744,174	116,615	-	24,860,789
Production facilities	20,423,517	-	-	20,423,517
Transmission facilities	10,852,034	-	-	10,852,034
Tunnel and retention basins	35,435,604	-	-	35,435,604
Machinery and equipment	10,200,795	360,560	369,626	10,930,981
Land improvements	1,547,654	-	-	1,547,654
Subtotal	103,203,778	477,175	369,626	104,050,579
Accumulated depreciation:				
Plant facilities	13,469,641	589,982	-	14,059,623
Production facilities	9,114,347	403,444	-	9,517,791
Transmission facilities	3,752,497	217,041	-	3,969,538
Tunnel and retention basins	14,375,771	738,006	-	15,113,777
Vehicles	6,846,361	361,178	-	7,207,539
Land improvements	1,213,910	44,092	-	1,258,002
Subtotal	48,772,527	2,353,743	-	51,126,270
Net capital assets being depreciated	54,431,251	(1,876,568)	369,626	52,924,309
Net capital assets	\$ 58,437,955	\$ (1,876,568)	\$ -	\$ 56,561,387

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

Governmental activities:

General government	\$ 363,523
Public safety	38,163
Public works	382,108
Recreation and culture	30,662
Total governmental activities	<u>\$ 814,456</u>

Business-type activities:

Sewage disposal	\$ 1,344,403
Water supply system	614,898
Automobile parking system	216,280
Ice arena	178,162
Total business-type activities	<u>\$ 2,353,743</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

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

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

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

Other governmental funds	Other governmental funds	\$ 70,000
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The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenue in accordance with Act 51.

Note 7 - Long-term Debt

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment purchase agreement - Fire pumper	\$ 129,430	\$ -	\$ 41,244	\$ 88,186	\$ 43,074
Installment purchase agreement - Vactor jet	266,224	-	39,061	227,163	41,097
General obligation bonds - Series 2006 41B District Court Building (Note 12)	2,091,000	-	51,000	2,040,000	51,000
Total	2,486,654	-	131,305	2,355,349	135,171
Total accrued sick and vacation liability	796,628	289,712	300,000	786,340	300,000
Total governmental activities	<u>\$ 3,283,282</u>	<u>\$ 289,712</u>	<u>\$ 431,305</u>	<u>\$ 3,141,689</u>	<u>\$ 435,171</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds:					
State Combined Sewer Overflow					
Revolving Fund Debt:					
1998A Sewage Disposal System Bonds	\$ 2,415,000	\$ -	\$ 280,000	\$ 2,135,000	\$ 285,000
1998A-2 Sewage Disposal System Bonds	1,981,243	-	233,476	1,747,767	238,342
1999A Sewage Disposal System Bonds	3,785,000	-	435,000	3,350,000	445,000
1998 B Sewage Disposal System Bonds	875,000	-	125,000	750,000	125,000
1999 B Sewage Disposal System Bonds	500,000	-	50,000	450,000	50,000
2010 Clean Water Program Proj. 5477-01	1,145,942	-	50,000	1,095,942	50,000
2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges	1,423,337	16,667	355,000	1,085,004	350,000
2003 Parking Improvement Bonds	3,800,000	-	-	3,800,000	250,000
Revenue obligations - 1998B Water Supply System Revenue Bonds	450,000	-	50,000	400,000	50,000
State Drinking Water Revolving Fund Debt:					
1998A Water Supply System Revenue Bonds	390,000	-	45,000	345,000	45,000
1998A-2 Water Supply System Revenue Bonds	905,000	-	108,000	797,000	108,000
1999A Water Supply System Revenue Bonds	2,230,000	-	255,000	1,975,000	260,000
2000A Water Supply System Revenue Bonds	1,000,000	-	100,000	900,000	105,000
2000A-2 Water Supply System Revenue Bonds	1,170,000	-	105,000	1,065,000	105,000
2007A Water Supply System Revenue Bonds	2,989,911	-	170,000	2,819,911	175,000
2007B Water Supply System Revenue Bonds	204,432	-	10,000	194,432	10,000
Total bonds payable	25,264,865	16,667	2,371,476	22,910,056	2,651,342
Long-term portion of accrued sick and vacation liability	159,056	-	4,037	155,019	-
Total business-type activities	\$ 25,423,921	\$ 16,667	\$ 2,375,513	\$ 23,065,075	\$ 2,651,342

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - Long-term Debt (Continued)

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 135,171	\$ 103,836	\$ 239,007	\$ 2,651,342	\$ 681,922	\$ 3,333,264
2015	139,324	97,763	237,087	2,782,372	598,149	3,380,521
2016	113,309	91,071	204,380	2,863,908	510,702	3,374,610
2017	115,574	85,915	201,489	2,560,299	412,163	2,972,462
2018	134,971	80,286	215,257	2,664,663	335,772	3,000,435
2019-2023	510,000	328,113	838,113	7,432,180	750,898	8,183,078
2024-2028	697,000	196,384	893,384	1,734,343	114,827	1,849,170
2029-2031	510,000	34,425	544,425	220,949	8,434	229,383
Total	<u>\$ 2,355,349</u>	<u>\$ 1,017,793</u>	<u>\$ 3,373,142</u>	<u>\$ 22,910,056</u>	<u>\$ 3,412,867</u>	<u>\$ 26,322,923</u>

Revenue Bond - The City has pledged substantially all revenue of the Water Supply System Fund, net of operating expenses, to repay the above water revenue bonds. Proceeds from the bonds provided financing for the repair of water infrastructure. The bonds are payable solely from the net revenue of the water system. The remaining principal and interest to be paid on the bonds total \$9,646,318. During the current year, net revenue of the system totaled \$1,123,853 compared to the annual debt requirements of \$1,078,772.

Advance Refundings - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2013, \$800,000 of bonds outstanding is considered defeased.

Current year liabilities payable from restricted assets in the water supply system include \$373,500 of principal and \$49,714 of interest.

Note 8 - Environmental Remediation Liability

In a previous year, the City began remediation activities on a former municipal landfill, including the installation of an interception system and periodic monitoring of methane emissions. The current estimate of the ultimate liability, based on the probabilities of various cash flows, is \$274,008. A liability is included in the government-wide statements for the estimated probable cash flow related to this cleanup.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and general liability claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Mount Clemens Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City. The City of Mount Clemens Employees' Retirement System covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2012, the date of the most recent actuarial valuation, membership consisted of 187 retirees and beneficiaries currently receiving benefits, 24 terminated employees entitled to benefits but not yet receiving them, and 69 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 11.55 percent from fire employees and 5.3 percent from other general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs - For the year ended June 30, 2013, the City's annual pension cost of \$743,598 for the plan was equal to the required contribution adjusted for interest on the beginning of year net pension asset and adjustment to the annual required contribution. The actual contribution made during the year was \$520,114. This valuation's computed contribution and actual fundings are summarized as follows:

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 734,519
Interest on net pension asset	30,792
Adjustment to annual required contribution	<u>(21,713)</u>
Annual pension cost (APC)	743,598
Contributions made	<u>(520,114)</u>
Increase in net pension obligation	223,484
Net pension obligation - Beginning of year	<u>410,553</u>
Net pension obligation - End of year	<u>\$ 634,037</u>

The change in net pension obligation can be seen below:

	Fiscal Year Ended June 30		
	2013	2012	2011
Annual pension cost (APC)	\$ 743,598	\$ 782,542	\$ 927,216
Percentage of APC contributed	69.9 %	71.4 %	60.3 %
Net pension obligation	\$ 634,037	\$ 410,553	\$ 186,423

Funding Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the plan was 88.9 percent funded. The actuarial accrued liability for benefits was \$59 million, and the actuarial value of assets was \$53 million, resulting in an unfunded actuarial accrued liability of \$6 million. The covered payroll (annual payroll to active employees covered by the plan) was \$4 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 171.8 percent.

The schedule of funding progress, presented as RSI following the notes to the 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 of benefits.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 10 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of 4.25 to 27.9 percent per year, with no cost of living adjustments. Both (a) and (b) include an inflation component of 4.25 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a 28-year closed basis for general employees and a 28-year closed basis for police and fire employees.

Reserves - As of June 30, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 5,251,597
Reserve for retired benefit payments	43,740,306

Note 11 - Other Postemployment Benefits

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

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

Funding Policy - The collective bargaining agreements do not require contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2013, the City made payments for postemployment health benefit premiums of approximately \$1,893,000.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,124,407
Interest on the prior year's net OPEB obligation	147,513
Less adjustment to the annual required contribution	<u>(98,342)</u>
Annual OPEB cost	3,173,578
Amounts contributed:	
Payments of current premiums, including implicit rate subsidy	(2,111,462)
Advance funding	<u>-</u>
Increase in net OPEB obligation	1,062,116
OPEB obligation - Beginning of year	<u>2,953,253</u>
OPEB obligation - End of year	<u>\$ 4,015,369</u>

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

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions	Net OPEB Obligation
		Percentage Contributed*	
6/30/13	\$ 3,173,578	67.5 %	\$ 4,015,369
6/30/12	3,018,163	69.3	2,953,253
6/30/11	2,517,950	81.0	2,026,290

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

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/11	\$ -	\$ 55,563,689	\$ 55,563,689	-	\$ 4,086,498	1,359.7
6/30/09	-	42,380,584	42,380,584	-	4,613,101	918.7
6/30/07	-	49,657,159	49,657,159	-	4,455,135	1,114.6

Note 11 - Other Postemployment Benefits (Continued)

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

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

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.25 percent after nine years. Both rates included a 5.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

Note 12 - Joint Ventures

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Park, Grosse Pointe Farms, Grosse Pointe, Grosse Pointe Woods, Harper Woods, the Village of Grosse Pointe Shores, and the Township of Clinton. The City Commission appoints one member to the Authority's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2013

Note 12 - Joint Ventures (Continued)

The City's interest in the net assets of the Authority totaled \$196,150 at June 30, 2013 and is reported as part of the governmental activities in the statement of net position. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

The City is also a member of the 41B District Court Common Fund (the "Court"), a joint venture that provides judiciary services to the City of Mount Clemens and the Charter Townships of Clinton and Harrison. The City Commission appoints one member to the Court's management council, which has the responsibility of reviewing financial matters of the Court, including annual budget requests. The expenses of the Court are divided among three communities in proportion to the volume of cases attributable to each community. Fines and fees collected from within the communities are distributable to the communities net of their allocation of the Court's expenditures. The City has also recorded its interest in the capital assets, the related bonded debt obligations, and the net assets of the Court in the governmental activities statements in the amount of \$574,742, based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 13 - Related Party Transactions

The City commission has contracted RT Arena Management, LLC to operationally manage the day-to-day activities of the Ice Arena Fund. The owner of RT Arena Management, LLC also serves as the managing director of an affiliated entity, Mount Clemens Hockey Association (MCHA). MCHA provides 38 percent or approximately \$579,000 of the Ice Arena Fund's revenue through youth hockey league membership fees and ice rental. The outstanding receivable as of June 30, 2013 was in the amount of \$127,932, which has been fully reserved.

Note 14 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of fiscal year 2013-2014.

Note 14 - Upcoming Accounting Pronouncements (Continued)

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports, and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City of Mount Clemens, Michigan, this standard will be adopted for the year ending June 30, 2014.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015 .

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,611,250	\$ 4,620,705	\$ 4,627,376	\$ 6,671
Licenses and permits	280,500	283,500	269,187	(14,313)
Federal grants	140,000	199,000	198,854	(146)
State-shared revenue and grants	1,675,000	1,697,000	1,689,811	(7,189)
Charges for services:				
Charges, services, and fees	206,800	370,600	369,875	(725)
Charges for services rendered	260,000	260,000	260,000	-
Charges for services and sales	379,300	357,550	309,684	(47,866)
Fines and forfeitures:				
Parking fines and fees	200,100	140,100	82,085	(58,015)
Use and admission fees	33,000	31,145	31,129	(16)
Investment income	17,000	17,000	4,067	(12,933)
Other revenue - Other miscellaneous income	295,000	313,650	356,719	43,069
Total revenue	8,097,950	8,290,250	8,198,787	(91,463)
Expenditures - Current				
General government:				
City Commission	86,900	86,900	86,902	(2)
City administrator	69,874	64,159	61,778	2,381
Accounting	84,245	84,155	84,124	31
Purchasing	139,521	137,581	135,346	2,235
Telephone	41,500	31,544	29,201	2,343
Data processing	107,000	133,625	128,980	4,645
Treasurer	127,310	130,385	122,033	8,352
Assessing	110,675	110,125	109,769	356
Property tax refunds	50,000	230,000	222,025	7,975
City clerk	159,950	145,040	128,311	16,729
Elections	43,800	31,300	29,461	1,839
Maintenance of municipal buildings	137,808	131,308	124,942	6,366
Legal services	170,000	135,000	136,238	(1,238)
Personnel	122,015	119,935	114,451	5,484
Controller	77,370	77,270	77,262	8
Planning services	287,837	293,637	281,813	11,824
Auditing services	46,500	46,500	45,500	1,000
Cable television	75,000	75,000	75,000	-
Community promotions	25,100	16,600	12,701	3,899
Total general government	1,962,405	2,080,064	2,005,837	74,227
Public safety:				
Police	2,294,899	2,359,138	2,359,138	-
Dispatch center	347,497	381,424	381,424	-
Fire	1,344,788	1,343,497	1,346,083	(2,586)
Volunteer firemen	52,000	52,000	40,151	11,849
Inspection	171,000	156,500	155,353	1,147
Dog warden	26,850	26,600	23,076	3,524
Total public safety	4,237,034	4,319,159	4,305,225	13,934

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Public works:				
Street lighting	\$ 385,000	\$ 425,000	\$ 423,132	\$ 1,868
Sewage services	1,500	2,000	2,288	(288)
Community Development Block Grant	140,000	160,000	158,074	1,926
Miscellaneous	375	375	219	156
Total public works	526,875	587,375	583,713	3,662
Recreation and culture:				
Parks and stadium	175,500	174,800	198,457	(23,657)
Programs	13,000	26,500	19,947	6,553
Art Center	4,500	15,000	7,676	7,324
Total recreation and culture	193,000	216,300	226,080	(9,780)
Other functions	1,835,209	1,764,545	1,720,967	43,578
Total expenditures	8,754,523	8,967,443	8,841,822	125,621
Excess of Expenditures Over Revenue	(656,573)	(677,193)	(643,035)	34,158
Other Financing Sources - Transfers in	100,000	-	-	-
Net Change in Fund Balance	(556,573)	(677,193)	(643,035)	34,158
Fund Balance - Beginning of year	4,142,886	4,142,886	4,142,886	-
Fund Balance - End of year	<u>\$ 3,586,313</u>	<u>\$ 3,465,693</u>	<u>\$ 3,499,851</u>	<u>\$ 34,158</u>

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2013

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/07	\$ 53,434,465	\$ 54,573,569	\$ 1,139,104	97.9	\$ 4,455,135	25.6
6/30/08	54,931,695	55,546,873	615,178	98.9	4,646,808	13.2
6/30/09	53,430,397	55,763,351	2,332,954	95.8	4,644,753	50.2
6/30/10	51,691,868	56,588,177	4,896,309	91.3	4,593,744	106.6
6/30/11	53,126,665	60,091,783	6,965,118	88.4	4,086,498	170.4
6/30/12	52,855,450	59,421,600	6,566,150	88.9	3,822,187	171.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/08	6/30/07	\$ 529,250	117.0
6/30/09	6/30/08	522,454	119.0
6/30/10	6/30/09	704,000	96.0
6/30/11	6/30/10	940,264	60.0
6/30/12	6/30/11	770,584	72.0
6/30/13	6/30/12	734,519	71.0

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll, closed period
Amortization period	General employees - 28 years closed
	Police and fire employees - 28 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.25% - 27.9%
*Includes inflation at	4.25%
Cost of living adjustments	None

City of Mount Clemens, Michigan

Required Supplemental Information Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2013

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/07	\$ -	\$ 49,657,159	\$ 49,657,159	- %	\$ 4,455,135	1,115.0
6/30/09	-	42,380,584	42,380,584	-	4,613,101	918.7
6/30/11	-	55,563,689	55,563,689	-	4,086,498	1,359.7

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/11	6/30/09	\$ 2,517,950	81.0
6/30/12	6/30/11	2,997,033	70.0
6/30/13	6/30/11	3,124,407	67.5

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return *	5.0%
Projected salary increases	4.25%
*Includes inflation at	5.0%
Cost of living adjustments	None

Other Supplemental Information

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	
Assets					
Cash and cash equivalents	\$ 818,101	\$ 469,470	\$ 218,321	\$ 15,518	\$ 1,521,410
Receivables:					
Accrued interest receivable	454	-	96	-	550
Other receivables	-	-	1,119	9,723	10,842
Due from other governmental units	120,321	46,028	6,721	-	173,070
Prepaid expenses	-	-	11,427	-	11,427
Total assets	<u>\$ 938,876</u>	<u>\$ 515,498</u>	<u>\$ 237,684</u>	<u>\$ 25,241</u>	<u>\$ 1,717,299</u>
Liabilities					
Accounts payable	\$ 29,020	\$ 4,753	\$ 396	\$ 3,709	\$ 37,878
Accrued and other liabilities	6,017	3,484	13,300	132	22,933
Total liabilities	35,037	8,237	13,696	3,841	60,811
Fund Balances					
Nonspendable - Prepaids	-	-	11,427	-	11,427
Restricted:					
Right-of-way maintenance	64,382	151,815	-	-	216,197
Street construction	839,457	255,446	-	-	1,094,903
Transportation	-	-	212,561	-	212,561
Downtown maintenance	-	-	-	21,400	21,400
Assigned	-	100,000	-	-	100,000
Total fund balances	<u>903,839</u>	<u>507,261</u>	<u>223,988</u>	<u>21,400</u>	<u>1,656,488</u>
Total liabilities and fund balances	<u>\$ 938,876</u>	<u>\$ 515,498</u>	<u>\$ 237,684</u>	<u>\$ 25,241</u>	<u>\$ 1,717,299</u>

City of Mount Clemens, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	
Revenue					
Property taxes	\$ -	\$ -	\$ 298,568	\$ 168	\$ 298,736
State-shared revenue and grants	717,086	249,862	52,666	-	1,019,614
Charges for services	15,000	29,628	79,394	-	124,022
Investment income	2,968	861	1,498	-	5,327
Other revenue:					
Special assessments	-	-	-	60,834	60,834
Other miscellaneous income	1,547	246	5,527	-	7,320
Total revenue	736,601	280,597	437,653	61,002	1,515,853
Expenditures - Current - Public works	661,565	285,035	529,314	50,207	1,526,121
Excess of Revenue Over (Under) Expenditures	75,036	(4,438)	(91,661)	10,795	(10,268)
Other Financing Sources (Uses)					
Transfers in	-	70,000	-	-	70,000
Transfers out	(70,000)	-	-	-	(70,000)
Total other financing (uses) sources	(70,000)	70,000	-	-	-
Net Change in Fund Balances	5,036	65,562	(91,661)	10,795	(10,268)
Fund Balances - Beginning of year	898,803	441,699	315,649	10,605	1,666,756
Fund Balances - End of year	<u>\$ 903,839</u>	<u>\$ 507,261</u>	<u>\$ 223,988</u>	<u>\$ 21,400</u>	<u>\$ 1,656,488</u>

City of Mount Clemens, Michigan

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2013

	Agency Funds		Total Agency Funds
	Tax Collections	Agency Fund	
Assets			
Cash and cash equivalents	\$ 4,562	\$ 174,782	\$ 179,344
Receivables from sales to customers on account	3,000	-	3,000
Total assets	<u>\$ 7,562</u>	<u>\$ 174,782</u>	<u>\$ 182,344</u>
Liabilities			
Due to other governmental units	\$ 7,562	\$ -	\$ 7,562
Cash, bonds, and deposits	-	174,782	174,782
Total liabilities	<u>\$ 7,562</u>	<u>\$ 174,782</u>	<u>\$ 182,344</u>

September 24, 2013

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan
One Crocker Boulevard
Mount Clemens, MI 48043

Dear Mayor and Commissioners:

We have audited the financial statements of the City of Mount Clemens (the "City") as of and for the year ended June 30, 2013 and have issued our report thereon dated September 23, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I – Internal Control Related Matters Identified in an Audit

Section II – Required Communications with Those Charged With Governance

Section III – Accounting and Legislative Updates

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Mayor and City Commission of City of Mount Clemens.

Section III presents upcoming changes in accounting standards that will impact the City as well as updates on significant legislative matters.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

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

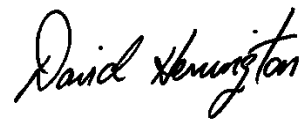
September 24, 2013

This report is intended solely for the use of the Mayor, the City Commission, and management of the City of Mount Clemens and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive style with a large, stylized "D" and "H".

David W. Herrington

A handwritten signature in black ink that reads "Lisa C. Manetta". The signature is written in a cursive style with a large, stylized "L" and "M".

Lisa C. Manetta

Section I - Communications Required Under AU 265

In planning and performing our audit of the financial statements of the City of Mount Clemens as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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.

We consider the following deficiencies in the City's internal control to be material weaknesses:

Year-end Closing Adjustments - During the audit, we generally provide assistance in identifying and calculating some of the many year-end accrual adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement 34. Accruals represent adjustments other than cash activity that impact the accounting records (capital assets, net pension asset, other postemployment benefits, allowances for doubtful accounts, etc.). We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as bond reserve requirements and valuing the interest in joint ventures). The lack of necessary year-end accrual adjustments and financial statement presentation or disclosure items could result in the potential misstatement of the financial statements. We are pleased to assist in this process, as we have expertise in these sorts of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

Ice Arena Bank Reconciliations – The account reconciliation process is a critical part of internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. The reconciliation process also provides an important internal control, in that any differences identified between underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted. For the Ice Arena, a secondary review of the cash account would be critical control as the preparer of the bank reconciliations is not segregated from the journal entry function. In addition, during our procedures, it was noted that bank reconciliations were not being prepared for certain bank accounts, nor were some bank reconciliations being prepared properly. The lack of review and accuracy of the reconciliations could result in potential understatement of assets and liabilities at year end. We recommend that management implement internal control policies to ensure reconciliations related to all cash accounts are performed on a periodic basis and the secondary review of key account reconciliations includes a critical evaluation of identified variances.

Ice Arena Year-end Adjustments and Accounting – During the audit, we noted the Ice Arena does not have controls in place to ensure receivables are tracked and recorded at their net realizable value (i.e. recording an allowance for balances that may not be collected from customers). In conjunction to testing of accounts receivable, we also identified revenue being recognized in the incorrect period. As a result, we recommend tracking in greater detail customer actual usage of ice time in the Ice Arena and periodic reconciliation of accounts receivable to a subsidiary ledger, as well as review for likelihood of collectability. Related to liabilities of the Ice Arena, we noted that accruals relating to payroll and accounts payable were incorrect due to recognition of underlying expenditures in the incorrect period. The lack of necessary year-end accrual adjustments could result in the misstatement of assets and understatement liabilities and the improper recognition of revenue and expenditures at year end. In addition, during our audit we noted an employee with access to the Ice Arena accounting system that also has the ability to modify payroll inputs for the Ice Arena. We recommend that management implement internal control policies to ensure changes to payroll inputs are monitored and approved by management.

Segregation of Duties related to Information Technology - In order to protect against unintentional or intentional corruption or loss of data, the City should have appropriate controls over information technology ("IT") including segregation of duties between financial and administrative access to the IT environment. Due to limited staffing and lack of a dedicated IT department, an individual with administrative access also currently has the ability to post journal entries in the City's financial software.

Section II - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 31, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City of Mount Clemens. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 7, 2013.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Mount Clemens are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the 2013 fiscal year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were those relating to the recording of the pension and other postemployment benefit valuation amounts and disclosures and the estimated liability for environmental remediation.

Management's estimate of the pension and OPEB liabilities are based on the annual required contributions as calculated by an actuary using data provided by the City. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of liability related to remediation activities on a former landfill, including the monitoring and maintenance costs, is based on communication with the Michigan Department of Environmental Quality and legal counsel advising management in the matter. We evaluated the key factors and assumptions used to develop the environmental remediation liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, we proposed material adjustment to the Ice Arena's opening equity balance and allowance for doubtful accounts which have been corrected by management.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the Management's Discussion and Analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Section III – Accounting and Legislative Updates

Upcoming Accounting Changes for Pensions

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to their employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for December 31, 2014, and Statement No. 68 one year later. We will work with the City in advance of the implementation dates to identify the impact on timing and content of actuarial reports and anticipated financial statement impact.

Economic Vitality Incentive Program

The State's FY 2013/2014 budget agreement has been reached and has put in place new requirements for CIP (County Incentive Program) and EVIP (Economic Vitality Incentive Program) compliance in the coming year. As you will note below, there are changes to each of the three categories with the most dramatic change to the newly titled category 3: Unfunded Accrued Liability Plan. The agreement also provides for a 4.8% increase for CIP and EVIP. Below are the new requirements in effect for the upcoming year:

Category I – Accountability and Transparency – due date 10/1/13

- Produce a Citizens Guide, including recognition of unfunded liabilities
- Produce a Performance Dashboard
- Publish a detail debt service listing which includes, at minimum, the following:
 - Issuance date, issuance amount, type of debt instrument
 - Listing of all revenues pledged to finance debt service by debt instrument
 - Listing of the annual payment amounts
- Publish a projected budget report – include current and succeeding year, include assumptions used
- *NOTE: All four of the above items must be made available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, all items shall be submitted directly to the State Department of Treasury.*

Category 2 – Consolidation of Services – due date 2/1/14

- Produce a consolidation plan and make it readily available in the city, village, township, or county clerk's office or posted on a publicly accessible website, in addition to submitting it to the State Department of Treasury.
- For all other than first time filers:
 - Must include an update on all previous initiatives addressing:
 - Whether the previously proposed plans were fully implemented
 - Barriers experienced in implementing the proposals
 - Estimated timeline of steps to accomplish the proposed plans
 - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
 - If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts

Category 3 – Unfunded Accrued Liability Plan (UALP) – due date 6/1/14

If the most recent audited financial report includes unfunded accrued liabilities for employee pensions or other post-employment benefits, a plan to lower all unfunded accrued liabilities must be completed with the following elements:

- Listing of all previous actions taken to reduce unfunded accrued liabilities. This should include an estimated cost savings.
- Detailed plan of how the previous actions will continue to be implemented and maintained
- A list of additional actions that could be taken
- In the event that no actions have been taken to reduce the liabilities, an explanation as to why this is the case and what potential actions could be taken
- Note that any actuarial assumption changes and issuance of debt DO NOT qualify as a new proposal
- The plan shall be readily available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, the entity should certify with the Department of Treasury that the plan is publicly available.
- If there are NO unfunded accrued liabilities the unit must certify to the Department of Treasury by the deadline and explain why none exist

Personal Property Tax

The personal property tax was repealed by the passing of several bills during the Legislature's lame duck session in December. This repeal is contingent upon a statewide vote in August 2014 to allow for a shifting of the Use Tax to a reimbursement fund. Key provisions of the Act phase out the industrial portion of the tax over a 9-year period beginning in 2016. Also, businesses with less than \$40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it will be business as usual and communities will continue to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than \$40,000 taxable value in industrial and commercial personal property. If during the statewide vote in August 2014, the proposed personal property tax legislation fails, for future levies the less than \$40,000 taxable value will no longer be in effect. If this is the case, the communities will NOT be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than \$40,000 for industrial and commercial personal property—this will just be lost.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by 5 members appointed by the Governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as Essential Services Assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final Act has not yet been published by the State.

Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts: <http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx>