

City of Mount Clemens, Michigan

Financial Report with Supplemental Information June 30, 2011

City of Mount Clemens, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18-19
Statement of Revenue, Expenses, and Changes in Net Assets	20-21
Statement of Cash Flows	22-23
Fiduciary Funds:	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefits Trust Fund	25
Component Unit:	
Statement of Net Assets	26
Statement of Activities	27
Notes to Financial Statements	28-52
Required Supplemental Information	53
Budgetary Comparison Schedule - General Fund	54-55
Retirement System Schedules of Funding Progress and Employer Contributions	56
Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions	57

City of Mount Clemens, Michigan

Contents (Continued)

Other Supplemental Information	58
Nonmajor Governmental Funds:	
Combining Balance Sheet	59
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	60
Fiduciary Funds -	
Statement of Assets and Liabilities	61

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, other postemployment benefit systems schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

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 accompanying 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 on our consideration of the City of Mount Clemens, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note I. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

Plante & Morse, PLLC

October 24, 2011

City of Mount Clemens, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Mount Clemens, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2011:

- During these economic times, the City continued to monitor revenue and expenditures this year in the General Fund and has managed to keep our unrestricted fund balance intact, which is currently at \$2,972,048. The City's original 2011 General Fund budget was slated to have a \$961,878 deficit, but the City Commissioners and the department directors worked productively and reduced the deficit to only \$477,389.
- 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. These savings are 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, the inspection department and building maintenance, which includes janitorial services, cable TV in the Schools, and parking lot snow removal. All of these outsourcing services are continually reviewed to ensure the maximum savings for our community. Since 1999, the City has reduced full-time employees from 159 to 74 in 2011. 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 \$336,000 in revenue. The City's second largest revenue source (state-shared revenue) was maintained and in fact increased by \$21,687. Another item is the contribution by all employees toward their health insurance premiums; this included the retirees who offered to change their plans. 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.
- The City also received several other state and federal grants; some of these grants were used for the purchase of a fire truck, major and local streets, bridge replacement, West Nile disease, the DNR Emerald Ash Borer Grant, and the Community Development Block Grant.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City continues to be proactive within the community to attract new construction and to rehabilitate homes by approving Neighborhood Enterprise Zones. Also, in the past couple of years, the City has approved a Tool/Die Renaissance Zone for a long-time manufacturing company located in Mount Clemens, obsolete property rehabilitation for a downtown historic building built in 1909 which was the second Mount Clemens fire department building, and an industrial facility tax for E.I. DuPont de Nemours and company, J.B. Cutting Inc., and CBS Boring and Machine Company. The combined total industrial facility tax was for the installation of new capital improvements up to \$36.5 million for a period of 12 years.

E.I. DuPont is a global company and currently is the largest corporate taxpayer and the largest manufacturing employer in the City. E.I. DuPont will be making capital investments up to \$15 million, with the goal of sustaining and improving profitability. J.B. Cutting, Inc. is a full-service component manufacturer. Thermoforming cabinet components make up 80 percent of the business and service local customers with cutting, edging, and machining. J.B. Cutting, Inc. will invest approximately \$1.6 million in new machinery and equipment. CBS Boring and Machine Company specializes in the manufacture of power-train components including engine blocks, cylinder heads, and transmission housings for the automotive, heavy-duty diesel truck, agricultural, and defense industries. CBS Boring and Machine Company currently operates five manufacturing plants in three states and supplies product to North America, Europe, and Japan. The facility it is moving into has been vacant and listed for sale for the past five years. Its \$19.5 million in investments will result in a total of at least 80 jobs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

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 assets and changes in net assets compared to the prior year (in thousands of dollars):

	Governmental Activities			Percent
	2010	2011	Change	change
Assets				
Other assets	\$ 7,845,209	\$ 6,961,662	\$ (883,547)	-11%
Capital assets	14,051,280	13,891,233	(160,047)	-1%
Total assets	21,896,489	20,852,895	(1,043,594)	-5%
Liabilities				
Current liabilities	444,114	522,874	78,760	18%
Long-term liabilities	4,948,366	5,593,831	645,465	13%
Total liabilities	5,392,480	6,116,705	724,225	13%
Net Assets				
Invested in capital assets, net of related debt	11,156,821	11,159,991	3,170	0%
Restricted	2,287,801	1,883,041	(404,760)	-18%
Unrestricted	3,059,387	1,693,158	(1,366,229)	-45%
Total net assets	<u>\$ 16,504,009</u>	<u>\$ 14,736,190</u>	<u>\$ (1,767,819)</u>	-11%

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent
	2010	2011	Change	Change
Revenue				
Program revenue:				
Charges for services	\$ 1,877,948	\$ 1,273,586	\$ (604,362)	-32%
Operating grants	1,214,111	1,295,602	81,491	7%
Capital grants	-	617,500	617,500	100%
General revenue:				
Property taxes	6,087,418	5,542,776	(544,642)	-9%
State-shared revenue	1,761,007	1,782,694	21,687	1%
Investment earnings	57,673	23,814	(33,859)	-59%
Other revenue	557,981	583,577	25,596	5%
Total revenue	11,556,138	11,119,549	(436,589)	-4%
Program Expenses				
General government	3,411,916	3,915,900	503,984	15%
Public safety	5,608,295	5,520,707	(87,588)	-2%
Public works	2,652,978	3,128,379	475,401	18%
Recreation and cultural	446,306	415,874	(30,432)	-7%
Total expenses	12,119,495	12,980,860	861,365	7%
Transfers	(131,864)	93,492	225,356	-171%
Change in Net Assets	\$ (695,221)	\$ (1,767,819)	\$ (1,072,598)	154%

Net assets of the governmental activities totaled approximately \$15 million at June 30, 2011, a decrease of approximately 11 percent from June 30, 2010. Unrestricted net assets of the governmental activities, the part of net assets used to finance day-to-day operations, decreased by \$1,366,000 from the June 30, 2010 balance of \$3,059,000.

The City's three largest revenue items are property taxes, which total 49.8 percent of the revenue, state-shared revenue at 16 percent, and charges for services at 11.5 percent. These three revenue sources total 77.3 percent of the total revenue. This past fiscal year, our revenue remained relatively stable as a result of a decrease in property taxes (9 percent), a slight increase in state-shared revenue (1 percent), decline in charges and services (9 percent), and an offsetting increase in federal and local grants.

Public safety and general government expenses in the governmental activities account for approximately 40.2 percent of the total amounts expended. Public works expense is the next largest function. This 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. In total, there was a decrease in net assets totaling approximately \$1,768,000.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

	Business-type Activities			Percent
	2010	2011	Change	Change
Assets				
Other assets	\$ 3,684,038	\$ 3,589,184	\$ (94,854)	-3%
Capital assets	<u>61,112,830</u>	<u>60,078,965</u>	<u>(1,033,865)</u>	-2%
Total assets	64,796,868	63,668,149	(1,128,719)	-2%
Liabilities				
Current liabilities	1,164,611	1,249,215	84,604	7%
Long-term liabilities	<u>29,804,214</u>	<u>28,603,823</u>	<u>(1,200,391)</u>	-4%
Total liabilities	<u>30,968,825</u>	<u>29,853,038</u>	<u>(1,115,787)</u>	-4%
Net Assets				
Invested in capital assets -				
Net of related debt	32,284,250	32,521,614	237,364	1%
Restricted	76,501	-	(76,501)	-100%
Unrestricted	<u>1,467,292</u>	<u>1,293,497</u>	<u>(173,795)</u>	-12%

	Business-Type Activities			Percent
	2010	2011	Change	change
Operating Revenue	\$ 9,824,556	\$ 10,083,390	\$ 258,834	3%
Operating Expenses - Other than depreciation	7,029,118	7,048,449	19,331	0%
Depreciation and Amortization	<u>2,342,596</u>	<u>2,091,556</u>	<u>(251,040)</u>	-11%
Operating income (loss)	452,842	943,385	-	
Interest Income	39,258	5,949	(33,309)	-85%
Interest Expense	932,745	868,774	(63,971)	-7%
Transfers	<u>131,864</u>	<u>(93,492)</u>	<u>(225,356)</u>	-171%
Change in Net Assets	<u>\$ (308,781)</u>	<u>\$ (12,932)</u>	<u>\$ 295,849</u>	-96%

The City's business-type activities include water, sewer, sanitation, auto parking, and the ice arena. The City provides water and sewer 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.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Rates for the various Enterprise Funds (Water, Sewer, Sanitation, Ice Arena, and Auto Parking) are reviewed and approved annually. Expenses are continuously reviewed and discussed with the City Commission.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, increased by approximately \$237,000. Total net assets of the business-type activities decreased by approximately \$13,000.

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 are police and fire and general government services, which incurred expenditures of approximately \$4.6 million and \$2.1 million, respectively, in 2011.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

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

	Governmental Funds				Percent Change
	2009	2010	2011	Change	
Revenue					
Property taxes and income taxes	\$ 6,272,616	\$ 6,041,271	\$ 5,506,315	\$ (534,956)	-9%
Charges for services	1,048,443	1,206,848	1,088,532	(118,316)	-10%
Licenses and permits	244,046	265,334	301,368	36,034	14%
State-shared revenue	1,976,020	1,761,007	1,782,694	21,687	1%
Act 51 funding	630,237	617,776	629,349	11,573	2%
Federal, state, and local grants	642,538	571,327	613,339	42,012	7%
Fines and forfeitures	279,888	297,109	190,578	(106,531)	-36%
Interest and rentals	109,188	53,573	23,814	(29,759)	-56%
Special assessments	46,617	36,636	42,156	5,520	15%
Other	497,583	323,487	266,197	(57,290)	-18%
Total revenue	11,747,176	11,174,368	10,444,342	(730,026)	-7%
Expenditures					
Current:					
General government	2,112,122	2,054,126	2,085,836	31,710	2%
Public safety	4,629,309	4,742,602	4,610,957	(131,645)	-3%
Public works	2,247,998	2,111,643	2,461,024	349,381	17%
Recreation and culture	282,265	272,593	259,206	(13,387)	-5%
Other functions	1,977,505	1,816,764	1,863,431	46,667	3%
Total expenditures	11,249,199	10,997,728	11,280,454	282,726	3%
Excess of Revenue Over (Under) Expenditures	497,977	176,640	(836,112)	(1,012,752)	-573%
Transfers - Net	(127,813)	(131,864)	93,492	225,356	-171%
Net Change in Fund Balances	370,164	44,776	(742,620)	(787,396)	-1759%
Fund Balances - Beginning of year	5,695,150	6,065,314	6,110,090	44,776	1%
Fund Balances - End of year	<u>\$ 6,065,314</u>	<u>\$ 6,110,090</u>	<u>\$ 5,367,470</u>	<u>\$ (742,620)</u>	-12%

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to decrease the estimated cost for police services by \$286,000. City departments overall stayed below budget, resulting in total expenditures \$120,000 below the final amended budget. However, total revenue was also under budget, which resulted in a decrease in General Fund fund balance of \$477,000, which is within \$1,500 of the final amended budget decrease of \$476,000.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

In the prior year, the City also 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, 2011 is \$2,259,000 million.

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 will continue to decrease over the next couple of years. The high sales of foreclosed properties are causing the values of non-foreclosed homes to drop. State-shared revenue will also decrease due to declining revenue streams coming into the state of Michigan. 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.

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 Assets June 30, 2011

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		
Assets				
Cash and cash equivalents (Note 3)	\$ 4,382,824	\$ 1,886,815	\$ 6,269,639	\$ 433,339
Investments (Note 3)	-	270,799	270,799	-
Receivables:				
Property taxes receivable	111,720	-	111,720	-
Customers	-	1,460,514	1,460,514	-
Accrued interest receivable	1,434	1,328	2,762	406
Other receivables	362,492	88,573	451,065	-
Due from other governmental units (Note 4)	659,165	-	659,165	5,859
Internal balances (Note 6)	594,846	(594,846)	-	-
Inventories	-	6,694	6,694	-
Prepaid expenses	241,399	77,331	318,730	17,310
Restricted assets	-	329,243	329,243	-
Investment in joint ventures (Note 12)	607,782	-	607,782	-
Capital assets (Note 5):				
Assets not subject to depreciation	2,791,978	4,855,581	7,647,559	151,892
Assets subject to depreciation	11,099,255	55,223,384	66,322,639	-
Intangible assets	-	62,733	62,733	-
Total assets	20,852,895	63,668,149	84,521,044	608,806
Liabilities				
Accounts payable	96,795	338,443	435,238	39,270
Due to other governmental units	137,184	-	137,184	-
Accrued liabilities and other	288,895	910,772	1,199,667	1,298
Noncurrent liabilities:				
Due within one year (Note 7):				
Compensated absences	300,000	-	300,000	-
Current portion of long-term debt	121,723	2,552,114	2,673,837	-
Due in more than one year:				
Compensated absences (Note 7)	476,792	140,313	617,105	-
Accrued settlement (Note 8)	450,000	-	450,000	-
Net OPEB obligation (Note 11)	1,449,374	576,916	2,026,290	-
Net pension obligation (Note 10)	186,423	-	186,423	-
Long-term debt (Note 7)	2,609,519	25,334,480	27,943,999	-
Total liabilities	6,116,705	29,853,038	35,969,743	40,568
Net Assets				
Invested in capital assets - Net of related debt	11,159,991	32,521,614	43,681,605	-
Restricted for:				
Streets	1,038,988	-	1,038,988	-
Debt service	402,612	-	402,612	-
Transportation	410,401	-	410,401	-
Public improvement	31,040	-	31,040	-
Unrestricted	1,693,158	1,293,497	2,986,655	568,238
Total net assets	\$ 14,736,190	\$ 33,815,111	\$ 48,551,301	\$ 568,238

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	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,915,900	\$ 667,118	\$ 81,135	\$ 617,500
Public safety	5,520,707	368,526	202	-
Public works	3,128,379	131,081	1,212,594	-
Recreation and culture	415,874	106,861	1,671	-
Total governmental activities	12,980,860	1,273,586	1,295,602	617,500
Business-type activities:				
Sewage disposal system	4,041,974	3,901,470	-	-
Water supply system	2,605,824	2,800,846	-	-
Sanitary system	838,032	702,319	-	-
Automobile parking system	734,531	596,428	-	-
Ice arena	1,788,418	2,082,327	-	-
Total business-type activities:	10,008,779	10,083,390	-	-
Total primary government	<u>\$ 22,989,639</u>	<u>\$ 11,356,976</u>	<u>\$ 1,295,602</u>	<u>\$ 617,500</u>
Component unit - Downtown Development Authority	<u>\$ 451,525</u>	<u>\$ 64,065</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenue				
Transfers (Note 6)				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2011

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (2,550,147)	\$ -	\$ (2,550,147)	\$ -
(5,151,979)	-	(5,151,979)	-
(1,784,704)	-	(1,784,704)	-
(307,342)	-	(307,342)	-
(9,794,172)	-	(9,794,172)	-
-	(140,504)	(140,504)	-
-	195,022	195,022	-
-	(135,713)	(135,713)	-
-	(138,103)	(138,103)	-
-	293,909	293,909	-
-	74,611	74,611	-
(9,794,172)	74,611	(9,719,561)	-
-	-	-	(387,460)
5,542,776	-	5,542,776	394,624
1,782,694	-	1,782,694	-
23,814	5,949	29,763	1,680
183,834	-	183,834	-
399,743	-	399,743	-
7,932,861	5,949	7,938,810	396,304
93,492	(93,492)	-	-
(1,767,819)	(12,932)	(1,780,751)	8,844
16,504,009	33,828,043	50,332,052	559,394
\$ 14,736,190	\$ 33,815,111	\$ 48,551,301	\$ 568,238

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2011

	Major Fund - General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,577,701	\$ 1,560,347	\$ 4,138,048
Receivables:			
Taxes	111,720	-	111,720
Accrued interest receivable	904	530	1,434
Other receivables	346,935	12,979	359,914
Other governmental units (Note 4)	498,093	161,072	659,165
Due from other funds (Note 6)	125,525	-	125,525
Advances to other funds (Note 6)	594,846	-	594,846
Prepaid expenses	220,147	12,623	232,770
Total assets	<u>\$ 4,475,871</u>	<u>\$ 1,747,551</u>	<u>\$ 6,223,422</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 80,553	\$ 11,941	\$ 92,494
Due to other governmental units	137,184	-	137,184
Due to other funds (Note 6)	-	125,525	125,525
Accrued and other liabilities	257,123	29,656	286,779
Deferred revenue (Note 4)	213,970	-	213,970
Total liabilities	688,830	167,122	855,952
Fund Balances			
Nonspendable:			
Prepays	220,147	12,623	232,770
Long-term receivable	594,846	-	594,846
Restricted:			
Right-of-way maintenance	-	153,524	153,524
Street construction	-	885,464	885,464
Transportation	-	397,778	397,778
Public improvement	-	31,040	31,040
Assigned:			
Subsequent year's budget	621,944	-	621,944
Local street construction	-	100,000	100,000
Unassigned	2,350,104	-	2,350,104
Total fund balances	<u>3,787,041</u>	<u>1,580,429</u>	<u>5,367,470</u>
Total liabilities and fund balances	<u>\$ 4,475,871</u>	<u>\$ 1,747,551</u>	<u>\$ 6,223,422</u>

City of Mount Clemens, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **June 30, 2011**

Fund Balance Reported in Governmental Funds	\$ 5,367,470
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	12,256,474
Investments in joint ventures are not financial resources and are not reported in the funds	607,782
Certain receivables are expected to be collected over several years and are not available	213,970
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(2,259,000)
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	(737,024)
Underpayment of actuarially determined pension contributions is not reported as liabilities in the funds	(186,423)
The current cost of other postemployment benefits is not due and payable in the current period and is not reported in the funds	(1,449,374)
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	(450,000)
Internal Service Funds are included as part of governmental activities	<u>1,372,315</u>
Net Assets of Governmental Activities	<u>\$ 14,736,190</u>

City of Mount Clemens, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	Major Fund - General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	\$ 5,157,859	\$ 348,456	\$ 5,506,315
Licenses and permits	301,368	-	301,368
Federal entitlement and grant revenue	173,148	-	173,148
State-shared grants and other revenue	1,806,369	1,045,865	2,852,234
Charges for services	970,288	118,244	1,088,532
Fines and fees	190,578	-	190,578
Investment income	16,444	7,370	23,814
Other revenue:			
Special assessments	-	42,156	42,156
Other miscellaneous revenue	261,935	4,262	266,197
Total revenue	8,877,989	1,566,353	10,444,342
Expenditures - Current			
General government	2,085,836	-	2,085,836
Public safety	4,610,957	-	4,610,957
Public works	629,440	1,831,584	2,461,024
Recreation	259,206	-	259,206
Other functions	1,863,431	-	1,863,431
Total expenditures	9,448,870	1,831,584	11,280,454
Excess of Expenditures Over Revenue	(570,881)	(265,231)	(836,112)
Other Financing Sources (Uses)			
Transfers in (Note 6)	93,492	150,000	243,492
Transfers out (Note 6)	-	(150,000)	(150,000)
Total other financing sources	93,492	-	93,492
Net Change in Fund Balances	(477,389)	(265,231)	(742,620)
Fund Balances - Beginning of year	4,264,430	1,845,660	6,110,090
Fund Balances - End of year	<u>\$ 3,787,041</u>	<u>\$ 1,580,429</u>	<u>\$ 5,367,470</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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (742,620)

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	70,848
Depreciation expense	(690,334)
Adjustment of court building value	(405,000)

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	98,331
---	--------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	429,000
---	---------

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	163,293
---	---------

Contributions to fund employee pensions made below actuarially determined amounts are not reported as assets in the funds	(360,395)
---	-----------

The current cost of other postemployment benefits is recorded when incurred in the statement of activities	(334,455)
--	-----------

Losses from joint ventures are not recorded in the funds	(77,576)
--	----------

Expenses related to claims and similar liabilities are recognized when incurred in the funds	(450,000)
--	-----------

Internal Service Funds are included as part of governmental activities	<u>531,089</u>
--	----------------

Change in Net Assets of Governmental Activities \$ (1,767,819)

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)	\$ 802,371	\$ -	\$ 425,026	\$ 295,874
Investments (Note 3)	-	-	270,799	-
Receivables:				
Customers	855,271	600,592	76	-
Accrued interest receivable	379	411	-	538
Other receivables	65,387	6,365	6,070	10,751
Inventory	6,694	-	-	-
Prepaid expenses and other assets	35,067	31,384	6,550	4,330
Total current assets	1,765,169	638,752	708,521	311,493
Noncurrent assets:				
Restricted assets (Note 1)	-	329,243	-	-
Advances to other funds (Note 6)	716,387	7,838	-	-
Capital assets (Note 5):				
Assets not subject to depreciation	1,165,316	32,677	-	3,657,588
Assets subject to depreciation	35,184,511	14,640,578	-	2,342,545
Intangible assets	-	-	-	62,733
Total noncurrent assets	37,066,214	15,010,336	-	6,062,866
Total assets	38,831,383	15,649,088	708,521	6,374,359
Liabilities				
Current liabilities:				
Accounts payable	203,951	35,053	62,603	4,285
Accrued and other liabilities	676,899	19,706	645	91,402
Net OPEB obligation (Note 11)	276,361	300,555	-	-
Current portion of long-term debt (Note 7)	1,118,614	467,125	-	250,000
Total current liabilities	2,275,825	822,439	63,248	345,687
Noncurrent liabilities:				
Advances from other funds (Note 6)	7,838	716,387	-	-
Payable from restricted assets (Note 1)	-	427,891	-	-
Compensated absences (Note 7)	57,429	65,916	13,313	3,655
Long-term debt - Net of current portion (Note 7)	10,563,467	9,339,343	-	4,025,000
Total noncurrent liabilities	10,628,734	10,549,537	13,313	4,028,655
Total liabilities	12,904,559	11,371,976	76,561	4,374,342
Net Assets				
Invested in capital assets - Net of related debt	24,667,746	4,834,655	-	1,725,133
Unrestricted	1,259,078	(557,543)	631,960	274,884
Total net assets	\$ 25,926,824	\$ 4,277,112	\$ 631,960	\$ 2,000,017

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

Proprietary Funds
Statement of Net Assets
June 30, 2011

Enterprise Funds		Governmental Activities
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund
\$ 363,544	\$ 1,886,815	\$ 244,776
-	270,799	-
4,575	1,460,514	-
-	1,328	-
-	88,573	2,578
-	6,694	-
-	77,331	8,629
368,119	3,792,054	255,983
-	329,243	-
-	724,225	-
-	4,855,581	-
3,055,750	55,223,384	1,634,759
-	62,733	-
3,055,750	61,195,166	1,634,759
3,423,869	64,987,220	1,890,742
32,551	338,443	4,301
55,604	844,256	2,116
-	576,916	-
355,000	2,190,739	76,723
443,155	3,950,354	83,140
594,846	1,319,071	-
-	427,891	-
-	140,313	39,768
1,406,670	25,334,480	395,519
2,001,516	27,221,755	435,287
2,444,671	31,172,109	518,427
1,294,080	32,521,614	1,162,517
(314,882)	1,293,497	209,798
\$ 979,198	\$ 33,815,111	\$ 1,372,315

City of Mount Clemens, Michigan

	Enterprise Funds			
	Sewage Disposal System	Water Supply System	Sanitary Department	Automobile Parking System
Operating Revenue				
Customer billings	\$ 3,895,278	\$ 2,670,064	\$ 667,814	\$ 596,204
Billings to other funds	-	-	-	-
Other revenue	6,192	130,782	34,505	224
Total operating revenue	3,901,470	2,800,846	702,319	596,428
Operating Expenses				
Cost of materials	94,980	246,601	14,421	6,849
Water supply and sewage disposal	1,785,644	1,081,833	-	-
Maintenance and operations	-	-	773,611	320,412
General and administrative	688,905	481,279	50,000	-
Depreciation	1,160,614	526,133	-	226,983
Total operating expenses	3,730,143	2,335,846	838,032	554,244
Operating Income (Loss)	171,327	465,000	(135,713)	42,184
Nonoperating Revenue (Expenses)				
Investment income (loss)	2,905	2,121	(774)	1,637
Interest expense	(311,831)	(269,978)	-	(180,287)
Total nonoperating expenses	(308,926)	(267,857)	(774)	(178,650)
(Loss) Income - Before capital contributions and transfers	(137,599)	197,143	(136,487)	(136,466)
Capital Contributions	-	-	-	-
Transfers Out	-	-	(93,492)	-
Change in Net Assets	(137,599)	197,143	(229,979)	(136,466)
Net Assets - Beginning of year	26,064,423	4,079,969	861,939	2,136,483
Net Assets - End of year	<u>\$ 25,926,824</u>	<u>\$ 4,277,112</u>	<u>\$ 631,960</u>	<u>\$ 2,000,017</u>

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

Enterprise Funds		Governmental Activities
Ice Arena	Total	Proprietary Internal Service Fund
\$ 2,082,327	\$ 9,911,687	\$ -
-	-	695,951
-	171,703	2,820
2,082,327	10,083,390	698,771
106,370	469,221	207,257
-	2,867,477	-
1,362,761	2,456,784	327,876
34,783	1,254,967	66,755
177,826	2,091,556	174,556
1,681,740	9,140,005	776,444
400,587	943,385	(77,673)
60	5,949	664
(106,678)	(868,774)	(9,402)
(106,618)	(862,825)	(8,738)
293,969	80,560	(86,411)
-	-	617,500
-	(93,492)	-
293,969	(12,932)	531,089
685,229	33,828,043	841,226
\$ 979,198	\$ 33,815,111	\$ 1,372,315

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	\$ 4,064,691	\$ 2,701,037	\$ 670,799	\$ 592,109
Payments to suppliers	(1,477,249)	(995,282)	(671,734)	(169,565)
Payments to employees	(855,226)	(764,335)	(147,353)	(159,064)
Other receipts	15,362	129,174	34,385	224
Net cash provided by (used in) operating activities	1,747,578	1,070,594	(113,903)	263,704
Cash Flows from Noncapital Financing Activities				
Loans received from other funds	7,838	-	-	-
Transfers to other funds	-	-	(93,492)	-
Repayments of loans from other funds	(201,792)	(128,078)	(51,438)	-
Net cash used in noncapital financing activities	(193,954)	(128,078)	(144,930)	-
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	-	-	-	-
Purchase of capital assets	(1,011,384)	(41,457)	-	(5,651)
Principal and interest paid on capital debt	(1,407,416)	(1,078,510)	-	(388,974)
Proceeds from the issuance of debt	1,052,222	-	-	-
Net cash used in capital and related financing activities	(1,366,578)	(1,119,967)	-	(394,625)
Cash Flows from Investment Activities				
Interest received on investments	2,905	2,169	-	1,246
Proceeds from sale and maturities of investment securities	-	-	4,309	-
Net cash provided by investing activities	2,905	2,169	4,309	1,246
Net Increase (Decrease) in Cash and Cash Equivalents	189,951	(175,282)	(254,524)	(129,675)
Cash and Cash Equivalents - Beginning of year	612,420	504,525	679,550	425,549
Cash and Cash Equivalents - End of year	\$ 802,371	\$ 329,243	\$ 425,026	\$ 295,874
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 802,371	\$ -	\$ 695,825	\$ 295,874
Restricted cash	-	329,243	-	-
Less amounts classified as investments	-	-	(270,799)	-
Total cash and cash equivalents	\$ 802,371	\$ 329,243	\$ 425,026	\$ 295,874
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 171,327	\$ 465,000	\$ (135,713)	\$ 42,184
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	1,160,614	526,133	-	226,983
Changes in assets and liabilities:				
Receivables	178,583	29,365	2,865	(4,095)
Inventories	-	58,446	-	-
Prepaid and other assets	(3,676)	(5,220)	(783)	284
Accounts payable	16,908	(53,908)	13,527	(2,439)
Accrued and other liabilities	223,822	50,778	6,201	787
Net cash provided by (used in) operating activities	\$ 1,747,578	\$ 1,070,594	\$ (113,903)	\$ 263,704

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2011

Enterprise Funds		Governmental Activities
Ice Arena	Total Enterprise Funds	Proprietary Internal Service Fund
\$ 2,077,752	\$ 10,106,388	\$ 695,947
(1,057,659)	(4,371,489)	(375,687)
(453,479)	(2,379,457)	(230,995)
-	179,145	2,820
566,614	3,534,587	92,085
-	7,838	-
-	(93,492)	-
-	(381,308)	-
-	(466,962)	-
-	-	617,500
801	(1,057,691)	(1,038,994)
(405,107)	(3,280,007)	257,478
-	1,052,222	-
(404,306)	(3,285,476)	(164,016)
60	6,380	664
-	4,309	-
60	10,689	664
162,368	(207,162)	(71,267)
201,176	2,423,220	316,043
\$ 363,544	\$ 2,216,058	\$ 244,776
\$ 363,544	\$ 2,157,614	\$ 244,776
-	329,243	-
-	(270,799)	-
\$ 363,544	\$ 2,216,058	\$ 244,776
\$ 400,587	\$ 943,385	\$ (77,673)
177,826	2,091,556	174,556
(4,575)	202,143	(4)
-	58,446	-
-	(9,395)	(658)
(532)	(26,444)	(4,624)
(6,692)	274,896	488
\$ 566,614	\$ 3,534,587	\$ 92,085

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	Pension and Other Employee Benefits Trust Fund	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 336,967	\$ 147,594
Investments (Note 3):		
U.S. government securities	1,182,140	-
Commercial paper	9,453,682	-
Common stock	23,042,123	-
Corporate bonds	9,287,255	-
U.S. mortgage-backed securities	3,671,857	-
U.S.-collateralized mortgage obligations	1,596,964	-
Corporate asset-backed securities	2,785,131	-
Corporate collateralized mortgage obligations	4,449,361	-
Receivables:		
Miscellaneous	-	3,000
Accrued interest receivable	209,235	-
Total assets	56,014,715	<u><u>\$ 150,594</u></u>
Liabilities		
Accounts payable	11,793	\$ -
Due to other governmental units	-	5,501
Cash bonds and deposits	-	145,093
Total liabilities	<u><u>11,793</u></u>	<u><u>\$ 150,594</u></u>
Net Assets Held in Trust for Pension and Other Employee Benefits	<u><u>\$56,002,922</u></u>	

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefits Trust Fund Year Ended June 30, 2011

	Pension and Other Employee Benefits Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,584,911
Net increase in fair value of investments	8,621,098
Investment-related expenses	<u>(288,819)</u>
Net investment income	9,917,190
Contributions:	
Employer contributions	566,821
Employee contributions	<u>268,739</u>
Total contributions	<u>835,560</u>
Total additions	10,752,750
Deductions	
Benefit payments	4,136,974
Refunds of contributions	<u>311,905</u>
Total deductions	<u>4,448,879</u>
Net Increase in Net Assets Held in Trust	6,303,871
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>49,699,051</u>
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 56,002,922</u></u>

City of Mount Clemens, Michigan

Component Unit Statement of Net Assets June 30, 2011

	Downtown Development Authority
Assets	
Cash and cash equivalents	\$ 433,339
Receivables:	
Accrued interest receivable	406
Due from other governmental units	5,859
Prepaid expenses and other assets	17,310
Capital assets	<u>151,892</u>
Total assets	608,806
Liabilities	
Accounts payable	39,270
Accrued and other liabilities	<u>1,298</u>
Total liabilities	<u>40,568</u>
Net Assets	
Invested in capital assets - Net of related debt	151,892
Unrestricted	<u>416,346</u>
Total net assets	<u><u>\$ 568,238</u></u>

City of Mount Clemens, Michigan

Component Unit Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Changes in Net
			Contributions	Assets
			Contributions	Downtown
				Development
				Authority
Downtown Development Authority	\$ 451,525	\$ 64,065	\$ -	\$ -
				\$ (387,460)
General revenue:				
Property taxes				394,624
Investment income				1,680
Total general revenue				396,304
Change in Net Assets				8,844
Net Assets - Beginning of year				559,394
Net Assets - End of year				\$ 568,238

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - 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, 2011

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets 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, 2011

Note 1 - 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 funds:

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 Fund - The Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services 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, 2011

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.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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 assets 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 relates 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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

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 2010 tax is levied and collectible on July 1, 2010 and is recognized as revenue in the year ended June 30, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2010 taxable valuation of the City totaled \$393.5 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, and 0.9137 for Dial-A-Ride services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$5.4 million for operating purposes, \$350,000 for police and fire pension, and \$350,000 for Dial-A-Ride services. These amounts are recognized in the respective General and Special Revenue 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, 2011

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 assets. 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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 March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The City implemented Statement No. 54 during the year.

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

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, 2011

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 and Debt Service 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:

Surplus (shortfall) at July 1, 2010		\$ (1,141,597)
Current year permit revenue		246,433
Related expenses:		
Direct costs	\$ 261,614	
Estimated indirect costs	<u>26,161</u>	287,775
Current year shortfall		<u>(41,342)</u>
Cumulative shortfall at June 30, 2011		<u>\$ (1,182,939)</u>

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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

Noncompliance with Legal or Contractual Provisions - At June 30, 2011, 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.

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:		
Property tax refunds	\$ 58,000	\$ 70,640
Planning services	324,074	57,065
Fire	1,657,747	1,675,406

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, 2011, the City's deposits and investments are in accordance with statutory authority.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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 \$2.60 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 it deposits or invests funds with 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	\$ 23,042,123	Counterparty
Mutual funds	9,453,682	Counterparty
Corporate bonds	9,287,255	Counterparty
Corporate asset-backed securities	2,785,131	Counterparty
Corporate collateralized mortgage obligations	4,449,361	Counterparty
U.S. government collateralized mortgage obligations	1,596,964	Counterparty
U.S. government mortgage-backed securities	3,671,857	Counterparty
U.S. government treasuries, notes, and bonds	939,686	Counterparty
Municipal	242,455	Counterparty

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

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

At year end, the City had the following investments:

Investment	Fair Value of Pension Trust Funds	Weighted Average Maturity (Years)
Corporate asset backed	\$ 2,785,131	6.06 years
Corporate bonds	9,287,255	7.81 years
Corporate collateralized mortgage obligations	4,449,361	28.18 years
U.S. government collateralized mortgage obligations	1,596,964	10.91 years
U.S. government mortgage backed	3,671,857	23.71 years
U.S. government treasuries, notes, and bonds	939,686	29.27 years
Municipal	242,455	21.94 years
Total	<u>\$ 22,972,709</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	\$ 2,219,853	\$ -	\$ 565,278
Corporate bonds	4,510,925	4,776,330	-
Corporate collateralized mortgage obligations	2,842,190	746,178	860,993
U.S. government collateralized mortgage obligations	-	-	1,596,964
U.S. government mortgage backed	-	-	3,671,857
U.S. government treasuries, notes, and bonds	-	-	939,686
Municipal	242,455	-	-
Total	<u>\$ 9,815,423</u>	<u>\$ 5,522,508</u>	<u>\$ 7,634,778</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, 2011

Note 3 - Deposits and Investments (Continued)

The City and City's Pension Fund do not limit investments in any one issuer. At June 30, 2011, the City's Pension Fund maintained investments in Loomis Sayles Global Equity and Income Fund totaling approximately 7.50 percent of the Pension Fund's total investments and Loomis Sayles Small Cap Value Fund totaling 9.46 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	\$ 94,345
Other grants/revenue earned but not available to pay for current expenditures	119,625
Total	<u>\$ 213,970</u>

The following is the detail of the governmental activities due from other governmental units at June 30, 2011:

	General Fund	Other Nonmajor Funds	Total
State of Michigan	\$ 391,718	\$ 157,533	\$ 549,251
Other	106,375	3,539	109,914
Total	<u>\$ 498,093</u>	<u>\$ 161,072</u>	<u>\$ 659,165</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets

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

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated - Land	\$ 2,791,978	\$ -	\$ -	\$ 2,791,978
Capital assets being depreciated:				
Sidewalks	1,758,592	-	-	1,758,592
Buildings and improvements	7,355,113	-	(405,000)	6,950,113
Machinery and equipment	5,801,966	1,065,951	-	6,867,917
Land improvements	2,916,191	43,892	-	2,960,083
Roads and bridges	9,758,841	-	-	9,758,841
Subtotal	27,590,703	1,109,843	(405,000)	28,295,546
Accumulated depreciation:				
Sidewalks	1,406,532	53,820	-	1,460,352
Buildings and improvements	2,411,279	92,008	-	2,503,287
Machinery and equipment	4,626,340	313,493	-	4,939,833
Land improvements	2,512,152	79,395	-	2,591,547
Roads and bridges	5,375,098	326,174	-	5,701,272
Subtotal	16,331,401	864,890	-	17,196,291
Net capital assets being depreciated	11,259,302	244,953	(405,000)	11,099,255
Net capital assets	\$ 14,051,280	\$ 244,953	\$ (405,000)	\$ 13,891,233

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 3,706,362	\$ (69,284)	\$ -	\$ -	\$ 3,637,078
Construction in progress	114,034	-	1,104,469	-	1,218,503
Subtotal	3,820,396	(69,284)	1,104,469	-	4,855,581
Capital assets being depreciated:					
Plant facilities	23,760,513	902,807	-	-	24,663,320
Production facilities	6,380,759	14,042,758	-	-	20,423,517
Transmission facilities	14,554,277	(3,702,243)	-	-	10,852,034
Tunnel and retention basins	38,265,932	(3,171,978)	-	-	35,093,954
Machinery and equipment	12,943,197	(3,865,180)	75,711	-	9,153,728
Land improvements	5,603,137	(4,136,880)	81,397	-	1,547,654
Subtotal	101,507,815	69,284	157,108	-	101,734,207
Accumulated depreciation:					
Plant facilities	9,585,662	2,708,795	548,268	-	12,842,725
Production facilities	4,650,267	3,695,261	365,375	-	8,710,903
Transmission facilities	5,252,788	(1,896,302)	178,970	-	3,535,456
Tunnel and retention basins	12,956,700	-	703,841	-	13,660,541
Machinery and equipment	8,313,870	(1,971,647)	249,389	-	6,591,612
Land improvements	3,665,208	(2,536,107)	40,485	-	1,169,586
Subtotal	44,424,495	-	2,086,328	-	46,510,823
Net capital assets being depreciated	57,083,320	69,284	(1,929,220)	-	55,223,384
Net capital assets	\$ 60,903,716	\$ -	\$ (824,751)	\$ -	\$ 60,078,965

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

Governmental activities:

General government	\$ 165,085
Public safety	96,795
Public works	395,370
Recreation and culture	33,084
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	174,556
Total governmental activities	\$ 864,890

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

Business-type activities:	
Sewage disposal	\$ 1,160,614
Water supply system	526,133
Automobile parking system	221,755
Ice arena	<u>177,826</u>
Total business-type activities	<u>\$ 2,086,328</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	<u>\$ 125,525</u>
Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
General Fund	Ice Arena	\$ 594,846
Sewage Disposal System	Water Supply System	716,387
Water Supply System	Sewage Disposal System	<u>7,838</u>
	Total	<u>\$ 1,319,071</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:

Receivable Fund	Payable Fund	Amount
General Fund	Sanitary Department	\$ 93,492
Other governmental funds	Other governmental funds	<u>150,000</u>
	Total	<u>\$ 243,492</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the Sanitary Department to the General Fund represent the repayment for environmental monitoring expenses, and 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.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment purchase agreement - Fire pumper	\$ 206,459	\$ -	\$ 37,717	\$ 168,742	\$ 39,447
Installment purchase agreement - Vactor Jet	-	303,500	-	303,500	37,276
General obligation bonds - Series 2006 41B District Court Building (Note 13)	2,688,000	-	429,000	2,259,000	45,000
Total	2,894,459	303,500	466,717	2,731,242	121,723
Total accrued sick and vacation liability	938,988	137,804	300,000	776,792	300,000
Total governmental activities	\$ 3,833,447	\$ 441,304	\$ 766,717	\$ 3,508,034	\$ 421,723

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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	\$ 2,950,000	\$ -	\$ 265,000	\$ 2,685,000	\$ 270,000
1998A-2 Sewage Disposal System Bonds	2,433,607	-	223,750	2,209,857	228,614
1999A Sewage Disposal System Bonds	4,620,000	-	410,000	4,210,000	425,000
1998 B Sewage Disposal System Bonds	1,075,000	-	100,000	975,000	100,000
1999 B Sewage Disposal System Bonds	600,000	-	50,000	550,000	50,000
2010 Clean Water Program Proj. 5477-01	-	1,052,222	-	1,052,222	45,000
2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges	2,055,003	16,667	310,000	1,761,670	355,000
2003 Parking Improvement Bonds	4,475,000	-	200,000	4,275,000	250,000
Revenue obligations:					
1998B Water Supply System Revenue Bonds	550,000	-	50,000	500,000	50,000
State Drinking Water Revolving Fund Debt:					
1998A Water Supply System Revenue Bonds	480,000	-	45,000	435,000	45,000
1998A-2 Water Supply System Revenue Bonds	1,112,000	-	103,500	1,008,500	103,500
1999A Water Supply System Revenue Bonds	2,720,000	-	240,000	2,480,000	250,000
2000A Water Supply System Revenue Bonds	1,195,000	-	95,000	1,100,000	100,000
2000A-2 Water Supply System Revenue Bonds	1,370,000	-	100,000	1,270,000	100,000
2007A Water Supply System Revenue Bonds	3,324,911	-	165,000	3,159,911	170,000
2007B Water Supply System Revenue Bonds	224,432	-	10,000	214,432	10,000
Total bonds payable	29,184,953	1,068,889	2,367,250	27,886,592	2,552,114
Long-term portion of accrued sick and vacation liability	185,682	-	45,367	140,315	-
Total business-type activities	<u>\$ 29,370,635</u>	<u>\$ 1,068,889</u>	<u>\$ 2,412,617</u>	<u>\$ 28,026,907</u>	<u>\$ 2,552,114</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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
2012	\$ 121,723	\$ 105,525	\$ 227,248	\$ 2,552,114	\$ 809,891	\$ 3,362,005
2013	134,323	115,047	249,370	2,563,146	731,372	3,294,518
2014	138,171	109,038	247,209	2,634,676	650,657	3,285,333
2015	142,262	102,845	245,107	2,774,040	566,855	3,340,895
2016	117,309	96,008	213,317	2,868,907	478,130	3,347,037
2017-2021	565,454	395,603	961,057	11,152,146	1,246,172	12,398,318
2022-2026	648,000	269,613	917,613	2,885,000	160,111	3,045,111
2027-2031	864,000	99,630	963,630	456,563	14,361	470,924
Total	<u>\$ 2,731,242</u>	<u>\$ 1,293,309</u>	<u>\$ 4,024,551</u>	<u>\$ 27,886,592</u>	<u>\$ 4,657,549</u>	<u>\$ 32,544,141</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 is \$32,277,716. During the current year, net revenue of the system totaled \$993,253 compared to the annual debt requirements of \$1,087,289.

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, 2011, \$1,850,000 of bonds outstanding are considered defeased.

Current year liabilities payable from restricted assets in the water supply system include \$361,375 of principal and \$66,516 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 \$450,000. This amount is net of estimated recoveries from governmental agencies of approximately \$100,000 and is not expected to be covered by insurance. A liability is included in the government-wide statements for the estimated probable cash flow related to this cleanup.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

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, 2010, the date of the most recent actuarial valuation, membership consisted of 179 retirees and beneficiaries currently receiving benefits and 27 terminated employees entitled to benefits but not yet receiving them and 81 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 6.55 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.

Annual Pension Costs - For the year ended June 30, 2011, the City's annual pension cost of \$927,216 for the plan was equal to the required contribution adjusted for interest on the beginning of year net pension asset. The actual contribution made during the year was \$566,821. This valuation's computed contribution and actual fundings are summarized as follows:

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 940,264
Interest on net pension asset	(13,048)
Adjustment to annual required contribution	<u>-</u>
Annual pension cost (APC)	927,216
Contributions made	<u>(566,821)</u>
Increase in net pension obligation	360,395
Net pension asset - Beginning of year	<u>(173,972)</u>
Net pension obligation - End of year	<u><u>\$ 186,423</u></u>

The change in net pension (asset) obligation can be seen below:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	\$ 927,216	\$ 690,066	\$ 522,454
Percentage of APC contributed	60.3 %	96.3 %	136.0 %
Net pension obligation (asset)	\$ 186,423	\$ (173,972)	\$ (185,787)

Funding Status and Funding Progress - As of June 30, 2010, the most recent actuarial valuation date, the plan was 91.3 percent funded. The actuarial accrued liability for benefits was \$57 million, and the actuarial value of assets was \$52 million, resulting in an unfunded actuarial accrued liability of \$5 million. The covered payroll (annual payroll to active employees covered by the plan) was \$5 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 106.6 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, 2011

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, 2010, 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 5.0 to 28.6 percent per year, with no cost of living adjustments. Both (a) and (b) include an inflation component of 5.0 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 30-year closed basis for general employees and a 12-year closed basis for police and fire employees.

Reserves - As of June 30, 2011, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,637,917
Reserve for retired benefit payments	37,794,769

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, 2011, the City made payments for postemployment health benefit premiums of \$1,835,470.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2011, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2009. 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)	\$ 2,490,078
Interest on the prior year's net OPEB obligation	85,167
Less adjustment to the annual required contribution	<u>(57,295)</u>
Annual OPEB cost	2,517,950
Amounts contributed:	
Payments of current premiums	(2,040,168)
Advance funding	<u>-</u>
Increase in net OPEB obligation	477,782
OPEB obligation - Beginning of year	<u>1,548,508</u>
OPEB obligation - End of year	<u><u>\$ 2,026,290</u></u>

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

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/11	\$ 2,517,950	81.0 %	\$ 2,026,290
6/30/10	2,389,333	74.0	1,548,498
6/30/09	2,422,212	62.0	931,064

* 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
6/30/09	\$ -	\$ 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, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.5 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 5 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, 2009 was 28 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, 2011

Note 12 - Joint Ventures (Continued)

The City's interest in the net assets of the Authority totaled \$205,170 at June 30, 2011 and is reported as part of the governmental activities in the statement of net assets. 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 based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 13 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2012-2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2011

Note 13 - Upcoming Accounting Pronouncements (Continued)

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 5,300,000	\$ 5,248,380	\$ 5,157,859	\$ (90,521)
Licenses and permits	252,500	295,500	301,368	5,868
Federal grants	140,000	178,200	173,148	(5,052)
State-shared revenue and grants	1,764,000	1,798,100	1,806,369	8,269
Charges for services:				
Charges, services, and fees	363,695	369,090	351,934	(17,156)
Charges for services rendered	260,000	260,000	260,000	-
Charges for services and sales	389,800	378,050	358,354	(19,696)
Fines and forfeitures:				
Parking fines and fees	239,000	230,000	154,031	(75,969)
Use and admission fees	42,000	38,200	36,547	(1,653)
Investment income	40,000	20,000	16,444	(3,556)
Other revenue - Other miscellaneous income	244,000	496,726	481,311	(15,415)
Total revenue	9,034,995	9,312,246	9,097,365	(214,881)
Expenditures - Current				
General government:				
City Commission	6,900	6,900	6,900	-
City administrator	221,802	223,423	220,630	2,793
Accounting	84,245	84,160	83,954	206
Purchasing	145,466	145,430	138,210	7,220
Telephone	45,000	46,600	49,924	(3,324)
Data processing	115,000	117,000	116,398	602
Treasurer	127,280	129,580	129,659	(79)
Assessing	111,675	110,500	109,732	768
Property tax refunds	15,000	58,000	70,640	(12,640)
City clerk	164,800	150,450	142,267	8,183
Elections	65,400	37,145	31,510	5,635
Maintenance of municipal buildings	149,808	134,408	123,393	11,015
Legal services	145,000	145,000	145,276	(276)
Personnel	125,755	122,100	117,039	5,061
Controller	79,655	78,479	78,453	26
Planning services	328,826	324,074	381,139	(57,065)
Auditing services	50,000	46,500	46,500	-
Cable television	75,000	75,000	75,000	-
Community promotions	25,100	23,100	19,212	3,888
Total general government	2,081,712	2,057,849	2,085,836	(27,987)
Public safety:				
Police	2,552,172	2,265,239	2,265,239	-
Dispatch center	311,820	336,498	336,498	-
Fire	1,610,465	1,657,747	1,675,406	(17,659)
Volunteer firemen	51,500	51,550	45,181	6,369
Inspection	272,592	257,010	261,614	(4,604)
Dog warden	26,100	29,100	27,019	2,081
Total public safety	4,824,649	4,597,144	4,610,957	(13,813)

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Public works:				
Engineering	-	13,335	12,308	1,027
Supervision and overhead	75,963	75,880	65,145	10,735
Alleys	14,800	13,800	10,068	3,732
Street lighting	345,000	365,000	359,642	5,358
Sewage services	1,500	1,700	1,856	(156)
Community Development Block Grant	91,500	172,390	120,341	52,049
Miscellaneous	81,050	84,750	60,080	24,670
Total public works	609,813	726,855	629,440	97,415
Recreation and culture:				
Parks and stadium	224,900	232,040	222,456	9,584
Programs	36,500	41,700	33,561	8,139
Art Center	4,500	5,000	3,189	1,811
Total recreation and culture	265,900	278,740	259,206	19,534
Other functions	2,184,799	2,127,505	2,082,807	44,698
Total expenditures	9,966,873	9,788,093	9,668,246	119,847
Excess of Expenditures Over Revenue	(931,878)	(475,847)	(570,881)	(95,034)
Other Financing Sources (Uses)				
Transfers in	-	-	93,492	93,492
Transfers out	(30,000)	-	-	-
Total other financing (uses) sources	(30,000)	-	93,492	93,492
Net Change in Fund Balance	(961,878)	(475,847)	(477,389)	(1,542)
Fund Balance - Beginning of year	4,264,430	4,264,430	4,264,430	-
Fund Balance - End of year	<u>\$ 3,302,552</u>	<u>\$ 3,788,583</u>	<u>\$ 3,787,041</u>	<u>\$ (1,542)</u>

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2011

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
6/30/05	\$ 52,189,133	\$ 55,946,174	\$ 3,757,041	93.3	\$ 5,245,808	71.6
6/30/06	52,503,861	55,977,310	3,473,449	93.8	5,257,637	66.1
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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/06	6/30/05	\$ 862,090	100.0
6/30/07	6/30/06	834,776	100.0
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

* 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, closed period
Amortization period (perpetual)	General employees - 30 years
	Police and fire employees - 12 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5% - 28.6%
*Includes inflation at	5%
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, 2011

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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/09	6/30/07	\$ 2,422,212	62.0
6/30/10	6/30/09	2,389,333	74.0
6/30/11	6/30/09	2,517,950	81.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2009, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period	28 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	5.5%
Projected salary increases	5.0%
*Includes inflation at	5%
Cost of living adjustments	None

Other Supplemental Information

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	
Assets					
Cash and cash equivalents	\$ 761,337	\$ 363,600	\$ 409,842	\$ 25,568	\$ 1,560,347
Receivables:					
Accrued interest receivable	473	-	57	-	530
Other receivables	-	-	4,141	8,838	12,979
Due from other governmental units	115,899	41,634	3,539	-	161,072
Prepaid expenses	-	-	12,623	-	12,623
Total assets	\$ 877,709	\$ 405,234	\$ 430,202	\$ 34,406	\$ 1,747,551
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 6,848	\$ 156	\$ 1,571	\$ 3,366	\$ 11,941
Due to other funds	75,840	49,685	-	-	125,525
Accrued and other liabilities	6,453	4,973	18,230	-	29,656
Total liabilities	89,141	54,814	19,801	3,366	167,122
Fund Balances					
Nonspendable - Prepaids	-	-	12,623	-	12,623
Restricted:					
Right-of-way maintenance	93,438	60,086	-	-	153,524
Street construction	695,130	190,334	-	-	885,464
Transportation	-	-	397,778	-	397,778
Downtown maintenance	-	-	-	31,040	31,040
Committed - Assigned - Local street construction	-	100,000	-	-	100,000
Total fund balances	788,568	350,420	410,401	31,040	1,580,429
Total liabilities and fund balances	\$ 877,709	\$ 405,234	\$ 430,202	\$ 34,406	\$ 1,747,551

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, 2011

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	Total	
Revenue						
Property taxes	\$ -	\$ -	\$ 348,370	\$ 86	\$ 348,456	\$ 348,456
State-shared revenue and grants	744,231	244,174	57,460	-	1,045,865	1,045,865
Charges for services	26,751	15,000	76,493	-	118,244	118,244
Investment income	3,382	734	3,226	28	7,370	7,370
Other revenue	2,228	1,163	871	42,156	46,418	46,418
Total revenue	776,592	261,071	486,420	42,270	1,566,353	1,566,353
Expenditures -						
Current - Public works	870,728	334,408	582,831	43,617	1,831,584	1,831,584
Excess of Expenditures Over Revenue	(94,136)	(73,337)	(96,411)	(1,347)	(265,231)	(265,231)
Other Financing Sources (Uses)						
Transfers in	-	150,000	-	-	150,000	150,000
Transfers out	(150,000)	-	-	-	(150,000)	(150,000)
Total other financing (uses) sources	(150,000)	150,000	-	-	-	-
Net Change in Fund Balances	(244,136)	76,663	(96,411)	(1,347)	(265,231)	(265,231)
Fund Balances - Beginning of year	1,032,704	273,757	506,812	32,387	1,845,660	1,845,660
Fund Balances - End of year	\$ 788,568	\$ 350,420	\$ 410,401	\$ 31,040	\$ 1,580,429	\$ 1,580,429

City of Mount Clemens, Michigan

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2011

	Agency Funds		Total Agency Funds
	Tax Collections	Agency Fund	
Assets			
Cash and cash equivalents	\$ 2,501	\$ 145,093	\$ 147,594
Receivables from sales to customers on account	3,000	-	3,000
Total assets	<u>\$ 5,501</u>	<u>\$ 145,093</u>	<u>\$ 150,594</u>
Liabilities			
Due to other governmental units	\$ 5,501	\$ -	\$ 5,501
Refundable deposits, bonds, etc.	-	145,093	145,093
Total liabilities	<u>\$ 5,501</u>	<u>\$ 145,093</u>	<u>\$ 150,594</u>

City of Mount Clemens, Michigan

**Federal Awards
Supplemental Information
June 30, 2011**

City of Mount Clemens, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-17

Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2011. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 24, 2011

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2011. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mount Clemens, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain edficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. See Finding 2011-1.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. See Findings 2011-2, 2011-7, 2011-8, and 2011-9.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Clemens, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2011-3.

The City of Mount Clemens, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Mount Clemens, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Honorable Mayor and City Commission, others within the City, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

October 24, 2011

Report on Compliance with Requirements That Could Have a Direct and
Material Effect on the Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Mount Clemens, Michigan (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The major federal program of the City of Mount Clemens, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express an opinion on the City of Mount Clemens, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mount Clemens, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Mount Clemens, Michigan's compliance with those requirements.

In our opinion, the City of Mount Clemens, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2011-4 and 2011-5.

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

Internal Control Over Compliance

The management of the City of Mount Clemens, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mount Clemens, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2011-4, 2011-5, and 2011-6 to be material weaknesses.

The City of Mount Clemens, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Mount Clemens, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Honorable Mayor and City Commission, others within the City, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

October 24, 2011

City of Mount Clemens, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Macomb County - CDBG - Entitlement Grants Cluster - Community Development Block Grant:	14.218			
Program year 2008		B-08-MC-26-0033	\$ 138,000	\$ 10,615
Program year 2009		B-09-MC-26-0033	126,635	31,776
Program year 2010		B-10-MC-26-0033	<u>140,000</u>	<u>63,500</u>
Total Community Development Block Grant			404,635	105,891
U.S. Department of Homeland Security - Federal Emergency Management Agency - Direct Program - Assistance to Firefighters Grant - Vehicle Acquisition	97.044	EMW-2009-FV-01471	<u>617,500</u>	<u>617,500</u>
Total federal awards			<u><u>\$ 1,022,135</u></u>	<u><u>\$ 723,391</u></u>

City of Mount Clemens, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Mount Clemens, Michigan under programs of the federal government for the year ended June 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the City of Mount Clemens, Michigan, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of the City of Mount Clemens, Michigan. Pass-through entity identifying numbers are presented where available.

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted?

☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
97.044	Assistance to Firefighters

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

Reference Number	Finding
2011-1	<p>Finding Type - Material weakness</p> <p>Criteria - The City of Mount Clemens, Michigan is required to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP).</p> <p>Condition - Certain year-end accrual adjustments, report reclassifications, and footnote disclosures were not identified and/or recorded by the City prior to the commencement of the year-end audit. These items were corrected in the June 30, 2011 financial statements with the assistance of the auditors.</p> <p>Context - None</p> <p>Cause - The resources of the finance department are sufficient for handling the day-to-day operations of the City, but personnel do not have the capacity to address all of the necessary year-end closing adjustments and disclosure items. As a result, there are often adjustments that are made with the assistance of the auditors during the course of the year-end audit.</p> <p>Effect - There are often adjustments that are made with the assistance of the auditors during the course of the year-end audit.</p> <p>Recommendation - The City finance department personnel should work to identify all year-end adjustments prior to the commencement of the year-end audit.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City has determined that enlisting the assistance of the auditors in identifying certain year-end accrual adjustments, report reclassifications, and footnote disclosures is a cost-effective means of preparing financial statements according to GAAP.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2011-2	<p>Finding Type - Significant deficiency</p> <p>Criteria - Reconciliation of key general ledger accounts from the ledger to supporting documentation is an integral component of the City of Mount Clemens' financial reporting and internal control structure. Reconciliations should be prepared in a clear manner and reviewed timely to ensure that accurate financial information is available to management and the governing body on a timely basis. In addition, the preparer of reconciliations should be segregated from the reporting function whenever possible.</p> <p>Condition - An unreconciled difference existed between the accounts receivable general ledger balance and subsidiary ledger for the entire year and was not reconciled until after year end. In addition, the preparer of bank reconciliations is not segregated from the recordkeeping functions.</p> <p>Context - The reason for the difference between the accounts receivable balance and the subsidiary ledger was determined subsequent to year end. The finance director performs a secondary review of cash account reconciliations.</p> <p>Cause - The City does not have an internal control process to fully reconcile accounts receivable balances to subsidiary ledgers in a timely manner.</p> <p>Effect - A difference existed between the accounts receivable subsidiary ledger and the general ledger balance throughout the year.</p> <p>Recommendation - The City of Mount Clemens should establish an internal control process to ensure that accounts are fully reconciled throughout the year and that bank reconciliations contain only the data needed to reconcile the balances.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will establish a process to ensure that all accounts are reconciled fully throughout the year.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2011-3	<p>Finding Type - Material noncompliance with laws and regulations</p> <p>Criteria - In accordance with revenue bond ordinance, the City is required to set aside money for future debt service payments</p> <p>Condition - The City did not have sufficient cash set aside in the Water Supply Fund at June 30, 2011 to meet the bond ordinance requirements.</p> <p>Context - The restricted assets in the Water Fund are \$182,148 less than the bond ordinance requirements.</p> <p>Cause - The Water Fund does not have sufficient cash to set aside for the bond requirements.</p> <p>Effect - The City did not meet the bond ordinance requirements.</p> <p>Recommendation - The City should review the Water Fund regularly to determine compliance with the bond ordinance requirements.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will be reviewing the rate structure of the Water Fund to determine whether sufficient cash can be generated in the future to meet these requirements.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2011-7	<p>Finding Type - Significant deficiency</p> <p>Criteria - The City should retain supporting documentation for expenses and supporting schedules for reconciliations.</p> <p>Condition - During the audit, we noted certain instances at the City's ice arena that supporting schedules for bank reconciliations and supporting invoices for vendor payments were not readily available upon request.</p> <p>Context - None</p> <p>Cause - The ice arena does not have controls in place to ensure that supporting documentation is retained to support all expenses and reconciliations.</p> <p>Effect - As a result, support was not readily available for certain transactions and reconciling items.</p> <p>Recommendation - A system should be put in place to ensure that supporting documentation is retained for expenses and to support detail of bank reconciliations.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will ensure that supporting documentation is retained by the ice arena.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2011-8	<p>Finding Type - Significant deficiency</p> <p>Criteria - Goods that are ordered and received, services that are performed, and contracts that are executed prior to year end should be included in accounts payable at June 30, 2011.</p> <p>Condition - The ice arena's contracted management company improperly excluded a liability as of year end for the purchase of goods and services because the funds were not disbursed until July 2011. However, the goods and services were received as prior to June 30, 2011. As a result, accounts payable was understated by \$14,542.</p> <p>Context - None</p> <p>Cause - A comprehensive review of disbursements made subsequent to year end was not performed to identify items that relate to the previous fiscal year.</p> <p>Effect - The financial statements did not correctly reflect the liability prior to our audit.</p> <p>Recommendation - A review should be performed of all disbursements subsequent to year end to identify any that relate to the previous fiscal year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The ice arena management will perform a comprehensive review of subsequent payments to identify any unrecorded liabilities.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2011-9	<p>Finding Type - Significant deficiency</p> <p>Criteria - Whenever possible, revenue and receivables for water and sewer services rendered by the City should be recorded based on actual usage or using estimates based on historical averages for the same time period or reasonable method.</p> <p>Condition - Subsequent to year end, water and sewer bills were sent to certain customers for amounts greatly in excess of their actual usage.</p> <p>Context - Approximately \$2,700 of bills were issued in excess of actual usage in fiscal year 2012.</p> <p>Cause - Manual adjustments were made to these customers' usage in the system without management approval.</p> <p>Effect - Revenue and accounts receivable were recorded at improper amounts.</p> <p>Recommendation - We recommend that a procedure be put in place to review exception reports that identify unusually high billings by customer in comparison to the same period in the previous year</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City's management will perform a comprehensive review of reports that identify unusual fluctuations in usage.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section III - Federal Program Audit Findings

Reference Number	Finding
2011-4	<p>Program Name - Assistance to Firefighters - 97.044</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - Government-wide requirements for suspension and debarment are contained in the OMB guidance in 2 CFR Part 180. OMB guidance requires nonfederal agencies to perform procedures to ensure vendors and contractors that receive payments in excess of \$25,000 are not excluded parties by checking the list for excluded parties, obtaining certifications from the contractor or seller, or including a clause or condition to the covered transaction with that entity.</p> <p>Condition - During the year, the City did not have a procedure in place to ensure that documentataion was retained to support that vendors or contractors that receive in excess of \$25,000 were not excluded parties.</p> <p>Questioned Costs - None - Upon review of the excluded parties listing subsequent to year end, it was determined that none of the parties that were awarded procurements were excluded parties.</p> <p>Context - During the audit, we selected the one vendor that received a contract in excess of \$25,000 for the purchase of a fire truck with federal funds. It was noted that documentation was not maintained of the City's verification that the vendor is not suspended or debarred.</p> <p>Cause and Effect - The City was not aware of the requirement. As a result, there was not a procedure in place to ensure compliance.</p> <p>Recommendation - It is recommended that the City perform a verification check on the EPLS website or request certifications from all vendors and contractors that receive in excess of \$25,000 to ensure that they are not suspended or debarred. All documentation related to verification check should be maintained.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City was not aware of the requirement and in the future will maintain documentation of the verification request on the EPLS website before making any payments to vendors.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2011-5	<p>Program Name - Assistance to Firefighters - 97.044</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - Financial report (SF-425) for the period ended June 30, 2010 was required to be filed by July 31, 2010.</p> <p>Condition - Financial report (SF-425) was due during July 2010. The City did not file the report until October 2010 after being reminded by the grantor agency.</p> <p>Questioned Costs - None</p> <p>Context - The financial report (SF-425) was not filed timely.</p> <p>Cause and Effect - The City of Mount Clemens did not have internal control processes in place to ensure financial reports were submitted on time. Late reporting resulted in noncompliance with grant regulations.</p> <p>Recommendation - The City of Mount Clemens should establish an internal control process to ensure reports are submitted within the required timeframes.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City of Mount Clemens has taken steps to address the issue and has been in contact with the awarding agency.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2011-6	<p>Program Name - Community Development Block Grant - Entitlement Grants Cluster - 14.218</p> <p>Pass-through Entity - Macomb County</p> <p>Finding Type - Material weakness</p> <p>Criteria - OMB Circular A-133 requires organizations to reflect federal expenditures in the schedule of expenditures of federal awards (SEFA) in the period that expenditures are incurred.</p> <p>Condition - The SEFA initially prepared by the City was not accurate as the federal program expenditures for the Community Development Block Grant Cluster were included at the incorrect amount.</p> <p>Questioned Costs - None</p> <p>Context - The modifications necessary to correct the SEFA initially prepared by the City could have affected the major program selection.</p> <p>Cause and Effect - Internal control procedures relative to the identification of federal expenditures to be reported on the SEFA did not operate effectively. This resulted in the City's schedule of expenditures of federal awards provided to the auditors being inaccurate on a program and total expenditure basis.</p> <p>Recommendation - Internal control procedures should be initiated and enforced to ensure the proper expenditures are reported in the schedule of expenditures of federal awards.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The amounts reported on the SEFA will be reviewed by supervisory personnel and reconciled to the financial statements.</p>

October 24, 2011

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, 2011 and have issued our report thereon dated October 24, 2011. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Legislative and Informational Items

Section I 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 the City of Mount Clemens.

Section II contains updated legislative and informational items that we believe will be of interest to you.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards, and we recommend that the matters we have noted there receive your careful consideration.

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

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.

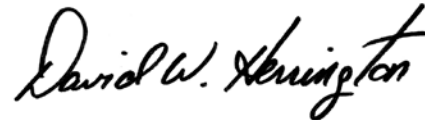
To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

October 24, 2011

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 script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

David W. Herrington

A handwritten signature in black ink that reads "Lisa C. Manetta". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Lisa C. Manetta

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 24, 2011, 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. Our audit of the City of Mount Clemens' financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 24, 2011 regarding our consideration of the City of Mount Clemens' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City of Mount Clemens, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

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 3, 2011 and to the rest of the City Commission through a letter.

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.

The application of existing policies was not changed during the year ended June 30, 2011. A new accounting standard, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, was adopted during the 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 the other postemployment benefit valuation amount and disclosures and the estimated liability for environmental remediation.

Management's estimate of the long-term cost of retiree healthcare benefits and other OPEB benefits is based on an actuarial report prepared 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.

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. Management has corrected all such misstatements, which include an adjustment to record the estimated liability for landfill monitoring costs described above.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2011.

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 government'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 Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

Section II - Legislative and Informational Items

Impact of Census Results on State-shared Revenue

The 2010 census data was released on March 22, 2011. Census results indicated an overall decline in population for the state of Michigan of 0.6 percent. The impact of the census on local units of government will vary widely based mostly upon whether or not a local unit is receiving statutory revenue-sharing payments.

In the prior year, it was reported that approximately 1,200 local units (out of approximately 1,775) did not receive any statutory revenue payments. For those communities who are only receiving constitutional payments, their percentage increase (or decrease) in population should result in a corresponding percentage increase (decrease) in constitutional revenue-sharing payments, retroactive to October 1, 2010. The retroactive payments are scheduled to be made (or deducted) in the June and August distributions.

The State's budget appropriation for 2010-2011 specifies that each local unit that experiences an increase in constitutional distributions (for instance, as a result of a population increase) will receive a corresponding reduction in statutory revenue sharing. What is less clear is whether those communities that receive a decline in constitutional distributions (due to a population decline) would receive an increase in statutory revenue sharing.

This is because of the provision that if the total statutory state-shared revenue to be paid throughout the State is higher than the State's budgeted amount, the State is under no obligation to pay more than was budgeted. At this point, we believe communities should plan on receiving the decreased amount.

State Initiatives Impacting Local Units of Government

Governor Snyder has begun his tenure with several significant initiatives, and he is moving his agenda forward at a quick pace. One of these initiatives is to improve the transparency and efficiency of local units - cities, townships, villages, and counties. More specifically, his current local government initiatives include:

- Replace "statutory revenue sharing" with a newly named "Economic Vitality Incentive Program" that will be reduced by approximately 1/3 and require local units to compete for the remaining \$200 million by demonstrating best practices in the following areas:
 - Transparency - Provide more accessible financial information to citizens
 - Service sharing - Consolidation or collaboration with other units of government
 - Employee benefits - Slimmed-down pension and healthcare benefits
- Significantly strengthening the powers of emergency managers
- Changes to Act 312, police and fire arbitration
- Changes to the Urban Cooperation Act
- Potential elimination of personal property taxes

Each of these initiatives could have an impact on the City of Mount Clemens and will be discussed in more detail below.

Accountability and Transparency

Governor Snyder's proposals call for each local unit to produce a citizen's guide to its finances (a "transparency tool") and a performance "dashboard" by October 1, 2011. These two tools should be readily available to the public, which likely means available via the Internet. The citizen's guide can be thought of as a simplified view of financial data, much like a Popular Annual Financial Report (PAFR). The performance dashboard would be comparisons of key metrics both to your community (over time) and to other communities (comparables).

At this point, there is no single set of criteria for these two tools, the result is to allow local units to design tools that are tailored and relevant to them.

There are a couple of Excel-based citizen's guide tools that have been created, including one by Plante & Moran, that have been made available on the State's website at

http://www.mich.gov/documents/treasury/NL2011-1_358387_7.pdf (Numbered letter with instructions)

http://www.mich.gov/documents/treasury/Citizens_Guide_1997_version_of_Excel_358386_7.xls (template)

There is also an Internet-based tool that has been created called Munetrix; while there would be a cost to obtain a license, the benefits would be timely access to comparative data, and there would be no requirement to have skills in Excel. The dashboard is also available on the State's website at http://www.mich.gov/treasury/0,1607,7-121-1751_2197_58826-259606--,00.html.

We are happy to note that the City of Mount Clemens met the transparency tool and dashboard requirements by October 1.

Service Sharing and Consolidation

The second requirement to compete for statutory revenue sharing has an implementation date of January 1, 2012. The State is requiring local units to submit a plan that identifies the increased sharing of services with other governments, or consolidation of services. While it appears that past endeavors will be considered this first year, the State is also looking for communities to develop plans to enter into new sharing arrangements. At this time, communities are required to certify that they have plans that they intend to implement. Actual sharing agreements do not need to be in place by January 1, 2012.

The State requires the service-sharing plans to include estimates of potential savings and costs associated with sharing services. In addition, the State has set aside a small amount (\$5 million out of the \$200 million) to assist communities with one-time implementation costs related to launching new service-sharing initiatives.

Employee Compensation Best Practices

The new EVIP program requires changes only to new, modified, or extended employee contracts. Such contracts would be subject to the following criteria:

- a) Placing all new hires in a defined contribution plan or a hybrid retirement plan that caps annual employer contributions at 10 percent of base salary
- b) Where applicable, a 1.5 percent multiplier should be used to determine employee pensions. A 2 percent multiplier should be used for employees who are not eligible for Social Security benefits.
- c) Implementing controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels
- d) If health care is offered, all new hires must be on an 80/20 employer to employee healthcare premium split.

Senate Bill 34 - Elimination of the Personal Property Tax

On January 19, 2011, SB 34 was introduced. Very simply, this bill, if it becomes law, will amend PA 206 of 1893 and exempt all personal property from the collection of taxes. Altogether, this would reduce revenue for communities across the state by approximately \$770 million. Including the school districts, the lost revenue would be over \$1 billion. This bill does not provide any source of revenue to replace that which is lost.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. During the governor's announcement of his budget, he did state that the elimination of the personal property tax was not part of his 2012 budget. The City of Mount Clemens' personal property tax currently brings in approximately \$800,000 annually.

Proposed Changes to Act 312, Police and Fire Arbitration

Public Act 312 prohibited public police and fire department employees from the right to strike. Whenever contracts are not resolved, the employees or employer may initiate binding arbitration in lieu of striking. The arbitrator's decision is final and binding upon the parties involved.

The governor's March 21, 2011 special message called for reforming Act 312 of 1969, the Police and Fire Arbitration Act. In July 2011, Public Act 116 of 2011 was signed into law and contains the following provisions:

- A stronger consideration of a community's ability to pay
- Internal salary and benefit comparisons
- Reducing the timeframe of the process to no more than 180 days

Retro-pay Prohibition

Public Act 54 of 2011, which was signed by the governor on June 7, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits. This act was ordered to take effect immediately.