

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

David W. Huntington

City of Mount Clemens, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Mount Clemens, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Assets (Deficit)	16-17
Statement of Revenue, Expenses, and Changes in Net Assets	18-19
Statement of Cash Flows	20-21
Fiduciary Funds:	
Statement of Net Assets	22
Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds - Employees' Retirement System	23
Component Units:	
Statement of Net Assets	24
Statement of Activities	25-26
Notes to Financial Statements	27-49
Required Supplemental Information	50
Budgetary Comparison Schedule - General Fund	51-53
Retirement System Schedules of Funding Progress and Employer Contributions	54

City of Mount Clemens, Michigan

Contents (Continued)

Other Supplemental Information	55
Nonmajor Governmental Funds:	
Combining Balance Sheet	56-57
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	58-59
Fiduciary Funds - Combining Balance Sheet - Agency Funds	60



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

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, 2007, 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, 2007 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, budget comparison schedule, and retirement system schedules of funding progress and employer contributions, identified in the table of contents as required supplemental information, 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 not a required part of the basic financial statements but is presented for the purpose of additional analysis. 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 September 28, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. The 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.

Plante & Moran, PLLC

September 28, 2007

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, 2007. 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, 2007:

- The City continued to monitor expenditures this year in the General Fund, adding approximately \$1,160,000 to fund balance. This savings is accomplished in part by the City disbanding the police department and contracting with the Macomb County Sheriff's Department in 2005.
- Other items affecting the General Fund was that state-shared revenue, our second largest revenue source, remained relatively level. The City received higher than expected health insurance refunds due to favorable experiences.
- Governor Granholm announced that Mount Clemens had been selected for the Cool Cities Grant. The Cool Cities designation is part of the economic plan to revitalize Michigan cities by retaining and attracting jobs and people to grow Michigan's economy.
- The City also received several other state and federal grants; some of these grants were for the re-construction of Dickinson Street bridge, which covered 80 percent of the expenditures, lake and river clean-up program, West Nile Disease, DNR Emerald Ash Borer Grant, and Community Development Block Grants.

The City has been very proactive within the community to attract new construction, and to rehabilitate homes, by approving Neighborhood Enterprise Zones. Also, the City has approved a Tool/Die Renaissance Zone for a long-time manufacturing company located in Mount Clemens, an obsolete property rehabilitation for a downtown building that has been vacant for several years, and an industrial facility tax for E.I. DuPont de Nemours and Company. The industrial facility tax was for the installation of new capital improvements up to \$15 million for a period of 10 years.

E. I. DuPont is a global company and is currently 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. E.I. DuPont also expects to make \$2 million in annual capital investments.

City of Mount Clemens, Michigan

Management's Discussion and Analysis

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)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 6,130	\$ 6,718	\$ 2,835	\$ 2,657	\$ 8,965	\$ 9,375
Noncurrent assets	16,581	12,161	64,591	65,350	81,172	77,511
Total assets	22,711	18,879	67,426	68,007	90,137	86,886
Liabilities						
Current liabilities	1,560	1,422	3,881	4,353	5,441	5,775
Long-term liabilities	3,944	887	30,002	32,023	33,946	32,910
Total liabilities	5,504	2,309	33,883	36,376	39,387	38,685
Net Assets						
Invested in capital assets -						
Net of related debt	12,500	11,269	32,246	29,158	44,746	40,427
Restricted	1,880	3,421	76	166	1,956	3,587
Unrestricted	2,827	1,880	1,220	2,307	4,047	4,187
Total net assets	<u>\$ 17,207</u>	<u>\$ 16,570</u>	<u>\$ 33,542</u>	<u>\$ 31,631</u>	<u>\$ 50,749</u>	<u>\$ 48,201</u>

Net assets of the governmental activities totaled approximately \$17.2 million at June 30, 2007, an increase of approximately 3.8 percent from June 30, 2006. Unrestricted net assets of the governmental activities, the part of net assets used to finance day-to-day operations, increased by \$947,000 over the June 30, 2006 balance of \$1,880,000.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, increased approximately 6.0 percent. Total net assets of the business-type activities increased by approximately \$1,911,000, primarily due to increase in equity in the sewage disposal system enterprise fund.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2007 and 2006 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 1,333	\$ 3,383	\$ 10,343	\$ 9,811	\$ 11,676	\$ 13,194
Operating grants and contributions	1,585	1,532	-	-	1,585	1,532
Capital grants and contributions	568	-	-	-	568	-
General revenue:						
Property taxes	7,142	7,104	-	-	7,142	7,104
State-shared revenue	2,058	2,117	-	-	2,058	2,117
Unrestricted investment earnings	247	168	85	64	332	232
Franchise fees	179	175	-	-	179	175
Income (loss) from joint venture	17	(16)	-	-	17	(16)
Gain on sale of assets	-	28	-	-	-	28
Miscellaneous revenue	668	608	-	-	668	608
Total revenue	13,797	15,099	10,428	9,875	24,225	24,974
Program Expenses						
General government	3,024	4,669	-	-	3,024	4,669
Public safety	5,007	4,880	-	-	5,007	4,880
Public works	3,163	2,827	-	-	3,163	2,827
Recreation and culture	489	464	-	-	489	464
Interest on long-term debt	23	36	-	-	23	36
Sewage disposal system	-	-	4,144	4,587	4,144	4,587
Water supply system	-	-	2,316	2,356	2,316	2,356
Sanitary system	-	-	905	914	905	914
Automobile parking system	-	-	865	860	865	860
Ice arena	-	-	1,743	1,766	1,743	1,766
Total program expenses	11,706	12,876	9,973	10,483	21,679	23,359
Excess (Deficiency) of Revenue Over Expenses - Before transfers						
	2,091	2,223	455	(608)	2,546	1,615
Transfers						
	(1,455)	(1,210)	1,455	1,210	-	-
Change in Net Assets						
	<u>\$ 636</u>	<u>\$ 1,013</u>	<u>\$ 1,910</u>	<u>\$ 602</u>	<u>\$ 2,546</u>	<u>\$ 1,615</u>

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's three largest revenue items are property taxes that total 55.1 percent of the revenue; state-shared revenue at 15.4 percent; and operating grants and contributions at 11.3 percent. These three revenue sources total 81.8 percent of the total revenue. This past fiscal year, our revenue decreased as a result of modest increases in property tax revenue and increased parking fines, and the loss of district court fines. In the current year, the Mount Clemens district court was combined with the Clinton and Harrison Township district courts. The loss of revenue was offset by a decrease in court expenses.

Public safety and general government expenses in the governmental activities account for approximately 76.6 percent of the total amounts expended. Public works expense is the next largest function. This past two years, the City has experienced significant decreases in public safety expenses as a result of contracting police services through the Macomb County sheriff. In total, there was an increase in net assets totaling approximately \$636,000.

Business-type Activities

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

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.

The City's Funds

Our analysis of the City's major funds begins on page 13, 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 millages. 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 \$4.08 million and \$2.02 million, respectively, in 2007.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the year, the City amended the budget to take into account various events that occurred during the year. Some of these events were health insurance refunds that were approximately \$85,000 higher than expected due to favorable experience; the City also had an increase of available federal grants by approximately \$170,000. The City received recognition from the State as a Cool City and received a \$100,000 grant. Budgeted expenditures were reduced by approximately \$200,000 due to a reduction of legal services, liability insurance, pension transfers, fire department disbursement of earned wages, and re-organization of the inspection department.

Capital Asset and Debt Administration

In the current year, the City reconstructed the Dickinson Street Bridge and began projects to replace a water main, repair elevated storage tanks, and replace systems in the water treatment plant.

In the current year, the City made draws on funding provided through the State of Michigan's Drinking Water Fund program totaling \$270,179. Debt to be issued is expected to total \$4.13 million, with an interest rate of 2.125 percent and a 20-year amortization period. The bond will be used to address a mandate from the Michigan Department of Environmental Quality to replace the backwash system in the water treatment plant along with repairs to the elevated storage tank and a water main replacement. 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, 2007 is \$3.50 million.

In fiscal year 2008, the City will see a major reduction in debt for the business-type activities. This is due to the final payments on the 1986 wastewater treatment plant bond issue. During this fiscal year, the principal and interest payment on this debt totaled \$1,500,000.

Current Economic Conditions and Next Year's Budget

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 revenues, and fees and charges, all of which are subject to limitations that will prevent them from increasing by much more than the rate of inflation, for at least the foreseeable future. On the other hand, expenses are expected to increase by more than inflation in many areas such as health insurance, retiree benefits, and energy costs. Through the use of long-term planning, the City will continue to evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

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, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 4,238,162	\$ 706,875	\$ 4,945,037	\$ 528,892
Investments (Note 3)	164,142	391,819	555,961	-
Receivables:				
Taxes	96,745	1,240	97,985	3,123
Customers	-	1,710,403	1,710,403	-
Special assessments	40,735	-	40,735	-
Other governmental units (Note 4)	1,146,564	-	1,146,564	-
Accrued interest and other	48,269	20,831	69,100	-
Interfund balances (Note 6)	209,903	(209,903)	-	-
Inventories	-	90,585	90,585	-
Assets held for resale	-	-	-	151,892
Prepaid expenses	185,941	39,094	225,035	818
Other assets	-	83,645	83,645	-
Investment in joint venture (Note 13)	215,746	-	215,746	-
Restricted assets (Note 8)	-	587,361	587,361	-
Capital assets (Note 5):				
Nondepreciable capital assets	7,912,450	5,053,786	12,966,236	-
Depreciable capital assets - Net	8,452,352	58,949,558	67,401,910	-
Total assets	22,711,009	67,425,294	90,136,303	684,725
Liabilities				
Accounts payable	280,377	1,127,828	1,408,205	51,451
Accrued and other liabilities	645,478	565,185	1,210,663	-
Deferred revenue (Note 4)	48,199	-	48,199	-
Noncurrent liabilities (Note 7):				
Due within one year	585,600	2,188,160	2,773,760	-
Due in more than one year	3,944,193	30,002,313	33,946,506	-
Total liabilities	5,503,847	33,883,486	39,387,333	51,451
Net Assets				
Invested in capital assets - Net of related debt	12,499,612	32,245,843	44,745,455	-
Restricted:				
Streets	1,000,359	-	1,000,359	-
Debt service	389,617	-	389,617	-
Bond reserve	-	75,500	75,500	-
Transportation	490,368	-	490,368	-
Unrestricted	2,827,206	1,220,465	4,047,671	633,274
Total net assets	<u>\$ 17,207,162</u>	<u>\$ 33,541,808</u>	<u>\$ 50,748,970</u>	<u>\$ 633,274</u>

City of Mount Clemens, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,024,715	\$ 736,956	\$ 152,337	\$ -
Public safety	5,006,857	460,336	72,258	-
Public works	3,163,312	64,097	1,355,392	567,910
Recreation and culture	489,384	72,013	4,986	-
Interest on long-term debt	22,844	-	-	-
Total governmental activities	11,707,112	1,333,402	1,584,973	567,910
Business-type activities:				
Sewage disposal system	4,143,891	4,284,966	-	-
Water supply system	2,315,693	2,826,566	-	-
Sanitary system	904,836	734,264	-	-
Automobile parking system	864,594	810,698	-	-
Ice arena	1,743,429	1,686,601	-	-
Total business-type activities	9,972,443	10,343,095	-	-
Total primary government	<u>\$ 21,679,555</u>	<u>\$ 11,676,497</u>	<u>\$ 1,584,973</u>	<u>\$ 567,910</u>
Component units:				
Downtown Development Authority	\$ 582,522	\$ 154,678	\$ -	\$ -
Brownfield Redevelopment Authority	98,443	-	98,443	-
Total component units	<u>\$ 680,965</u>	<u>\$ 154,678</u>	<u>\$ 98,443</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Franchise fees
 Miscellaneous
 Income from joint venture
 Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,135,422)	\$ -	\$ (2,135,422)	\$ -
(4,474,263)	-	(4,474,263)	-
(1,175,913)	-	(1,175,913)	-
(412,385)	-	(412,385)	-
(22,844)	-	(22,844)	-
(8,220,827)	-	(8,220,827)	-
-	141,075	141,075	-
-	510,873	510,873	-
-	(170,572)	(170,572)	-
-	(53,896)	(53,896)	-
-	(56,828)	(56,828)	-
-	370,652	370,652	-
(8,220,827)	370,652	(7,850,175)	-
-	-	-	(427,844)
-	-	-	-
-	-	-	(427,844)
7,142,076	-	7,142,076	506,482
2,058,257	-	2,058,257	-
246,863	85,570	332,433	10,604
179,398	-	179,398	-
668,324	-	668,324	-
16,943	-	16,943	-
(1,454,592)	1,454,592	-	-
8,857,269	1,540,162	10,397,431	517,086
636,442	1,910,814	2,547,256	89,242
16,570,720	31,630,994	48,201,714	544,032
\$ 17,207,162	\$ 33,541,808	\$ 50,748,970	\$ 633,274

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Major Fund - General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 1,739,288	\$ 1,980,214	\$ 3,719,502
Investments (Note 3)	164,142	-	164,142
Receivables:			
Taxes	91,815	4,930	96,745
Special assessments	-	40,735	40,735
Other governmental units (Note 4)	969,547	177,017	1,146,564
Accrued interest and other	11,888	11,608	23,496
Prepaid expenses	171,984	8,624	180,608
Due from other funds (Note 6)	209,903	-	209,903
Total assets	\$ 3,358,567	\$ 2,223,128	\$ 5,581,695
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 97,284	\$ 152,983	250,267
Accrued and other liabilities	119,619	25,632	145,251
Deferred revenue (Note 4)	98,097	125,471	223,568
Due to other governmental units	112,975	-	112,975
Total liabilities	427,975	304,086	732,061
Fund Balances			
Reserved:			
Debt service	-	389,617	389,617
Prepaid expenses	171,984	8,624	180,608
Unreserved:			
Designated (Note 12)	1,600,000	-	1,600,000
Undesignated	1,158,608	-	1,158,608
Unreserved and undesignated - Reported in nonmajor Special Revenue Funds	-	1,520,801	1,520,801
Total fund balances	2,930,592	1,919,042	4,849,634
Total liabilities and fund balances	\$ 3,358,567	\$ 2,223,128	
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			15,860,225
Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures			175,369
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(4,342,782)
Accrued interest is recognized when incurred in the statement of net assets			(8,930)
Environmental liabilities are not due and payable in the current period and are not reported in the funds			(375,000)
The investments in joint venture are not reported in the funds			215,746
Internal Service Funds are included as part of governmental activities			832,900
Net assets of governmental activities			\$ 17,207,162

City of Mount Clemens, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Fund - General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,481,589	\$ 1,624,703	\$ 7,106,292
Federal entitlement and grant revenue	273,821	-	273,821
State-shared grants and other revenue	2,216,795	990,134	3,206,929
Local intergovernmental revenue	-	54,373	54,373
Special assessments	-	81,966	81,966
Charges for services	995,970	64,077	1,060,047
Licenses and permits	259,844	-	259,844
Interest	105,005	119,123	224,128
Fines, forfeitures, and probation screening fees	274,371	-	274,371
Miscellaneous revenue	667,295	14,047	681,342
	<u>10,274,690</u>	<u>2,948,423</u>	<u>13,223,113</u>
Expenditures			
Current:			
General government	2,018,259	-	2,018,259
Public safety	4,084,155	-	4,084,155
Public works	626,702	2,855,373	3,482,075
Recreation	349,300	-	349,300
Other functions	1,920,204	-	1,920,204
Debt service:			
Principal retirement	-	280,000	280,000
Interest and fiscal charges	-	26,612	26,612
	<u>8,998,620</u>	<u>3,161,985</u>	<u>12,160,605</u>
Excess of Revenue Over (Under) Expenditures	1,276,070	(213,562)	1,062,508
Other Financing Sources (Uses)			
Transfers in	-	244,037	244,037
Transfers out	(121,000)	(1,577,629)	(1,698,629)
	<u>(121,000)</u>	<u>(1,333,592)</u>	<u>(1,454,592)</u>
Change in Fund Balances	1,155,070	(1,547,154)	(392,084)
Fund Balances - Beginning of year	1,775,522	3,466,196	5,241,718
Fund Balances - End of year	<u>\$ 2,930,592</u>	<u>\$ 1,919,042</u>	<u>\$ 4,849,634</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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (392,084)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay expenditures	1,121,016
Interest in 41B District Court Building	3,510,000
Depreciation expense	(796,719)
Capital grant revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds	567,910
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	85,702
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)	280,000
Debt related to the 41B District Court is not reflected in the governmental funds	(3,510,000)
Settlement of general liability claims is recorded when incurred in the statement of activities	(375,000)
Accrued interest is recorded on debt when incurred in the statement of activities	3,769
Decrease in accumulated employee compensated absences is recorded when earned in the statement of activities	106,974
Income from joint ventures is not recorded in the funds	16,943
Internal Service Funds are also included as governmental activities	17,931
Change in Net Assets of Governmental Activities	<u>\$ 636,442</u>

City of Mount Clemens, Michigan

	Enterprise Funds		
	Sewage Disposal System	Water Supply System	Sanitary Department
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 241,478	\$ -	\$ 37,933
Investments (Note 3)	-	-	391,819
Receivables:			
Taxes	-	-	1,240
Customers	1,023,520	667,908	16,709
Accrued interest and other	-	-	-
Prepaid expenses	19,291	15,334	4,469
Inventories	6,694	58,446	-
Total current assets	1,290,983	741,688	452,170
Noncurrent assets:			
Due from other funds (Note 6)	716,387	-	534,846
Other assets	-	-	-
Restricted assets (Note 8)	134,150	142,691	-
Capital assets (Note 5):			
Nondepreciable capital assets	-	1,347,424	-
Depreciable capital assets - Net	39,799,188	12,364,868	90
Total noncurrent assets	40,649,725	13,854,983	534,936
Total assets	41,940,708	14,596,671	987,106
Liabilities			
Current liabilities:			
Current portion of long-term debt (Note 7)	987,910	581,309	-
Accounts payable	100,878	888,707	67,032
Accrued and other liabilities	308,455	179,555	9,518
Due to other funds (Note 6)	109,903	100,000	-
Total current liabilities	1,507,146	1,749,571	76,550
Current liabilities payable from restricted assets	58,650	142,691	-
Due to other funds (Note 6)	-	716,387	-
Long-term debt - Net of current portion (Note 7)	13,887,598	8,795,785	23,687
Total noncurrent liabilities	13,887,598	9,512,172	23,687
Total liabilities	15,453,394	11,404,434	100,237
Net Assets (Deficit)			
Invested in capital assets - Net of related debt	25,021,093	4,102,367	90
Restricted - Revenue bond ordinances	75,500	-	-
Unrestricted	1,390,721	(910,130)	886,779
Total net assets (deficit)	\$ 26,487,314	\$ 3,192,237	\$ 886,869

**Proprietary Funds
Statement of Net Assets (Deficit)
June 30, 2007**

Enterprise Funds			Governmental Activities
Automobile Parking System	Ice Arena	Total Enterprise Funds	Internal Service Fund
\$ 421,149	\$ 6,315	\$ 706,875	\$ 518,660
-	-	391,819	-
-	-	1,240	-
-	-	1,708,137	-
19,624	3,473	23,097	24,773
-	-	39,094	5,333
-	25,445	90,585	-
440,773	35,233	2,960,847	548,766
-	-	1,251,233	-
83,645	-	83,645	-
310,520	-	587,361	-
3,706,362	-	5,053,786	-
3,008,572	3,776,840	58,949,558	504,577
7,109,099	3,776,840	65,925,583	504,577
7,549,872	3,812,073	68,886,430	1,053,343
150,000	270,000	1,989,219	33,600
18,834	52,377	1,127,828	30,110
12,835	52,422	562,785	3,322
-	-	209,903	-
181,669	374,799	3,889,735	67,032
-	-	201,341	-
-	534,846	1,251,233	-
4,660,241	2,635,002	30,002,313	153,411
4,660,241	3,169,848	31,253,546	153,411
4,841,910	3,544,647	35,344,622	220,443
2,250,455	871,838	32,245,843	317,566
-	-	75,500	-
457,507	(604,412)	1,220,465	515,334
\$ 2,707,962	\$ 267,426	\$ 33,541,808	\$ 832,900

City of Mount Clemens, Michigan

	Enterprise Funds - Major Funds		
	Sewage Disposal	Water Supply System	Sanitary Department
Operating Revenue			
Customer billings	\$ 4,217,726	\$ 2,651,312	\$ 662,833
Billings to other funds	-	-	-
Other revenue	67,240	175,254	71,431
Total operating revenue	4,284,966	2,826,566	734,264
Operating Expenses			
Cost of materials	136,620	163,309	67,310
Water supply and sewage disposal	1,756,718	986,302	-
Maintenance and operation	-	-	761,967
General and administrative	546,686	426,950	75,184
Depreciation	1,260,517	480,494	375
Total operating expenses	3,700,541	2,057,055	904,836
Operating Income (Loss)	584,425	769,511	(170,572)
Nonoperating Revenue (Expenses)			
Interest income	4,159	7,947	35,397
Interest expense	(443,350)	(258,638)	-
Income (Loss) - Before transfers	145,234	518,820	(135,175)
Transfers In	1,388,592	-	-
Transfers Out	-	-	(55,000)
Net Change in Net Assets	1,533,826	518,820	(190,175)
Net Assets - Beginning of year	24,953,488	2,673,417	1,077,044
Net Assets - End of year	\$ 26,487,314	\$ 3,192,237	\$ 886,869

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2007

Enterprise Funds - Major Funds			Governmental
Automobile Parking System	Ice Arena	Total Enterprise Funds	Activities Internal Service Fund
\$ 780,080	\$ 1,686,601	\$ 9,998,552	\$ -
-	-	-	601,529
30,618	-	344,543	9,248
810,698	1,686,601	10,343,095	610,777
6,803	132,078	506,120	195,557
-	-	2,743,020	-
388,444	1,114,003	2,264,414	315,472
60,000	152,142	1,260,962	47,472
205,834	181,533	2,128,753	48,808
661,081	1,579,756	8,903,269	607,309
149,617	106,845	1,439,826	3,468
36,485	1,582	85,570	22,734
(203,513)	(163,673)	(1,069,174)	(8,271)
(17,411)	(55,246)	456,222	17,931
-	121,000	1,509,592	-
-	-	(55,000)	-
(17,411)	65,754	1,910,814	17,931
2,725,373	201,672	31,630,994	814,969
\$ 2,707,962	\$ 267,426	\$ 33,541,808	\$ 832,900

City of Mount Clemens, Michigan

	Enterprise Funds		
	Sewage Disposal	Water Supply System	Sanitary Department
Cash Flows from Operating Activities			
Receipts from customers and other funds	\$ 4,113,130	\$ 2,536,504	\$ 741,865
Payments to suppliers and employees	(2,390,537)	(977,828)	(1,019,357)
Other receipts	67,240	175,254	71,431
Net cash provided by (used in) operating activities	1,789,833	1,733,930	(206,061)
Cash Flows from Noncapital Financing Activities			
Transfers out to other funds	-	-	(55,000)
Interfund receipts (payments)	(50,000)	(105,209)	55,209
Net cash provided by (used in) noncapital financing activities	(50,000)	(105,209)	209
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(19,723)	(1,069,154)	-
Transfers in from other funds	1,388,592	-	-
Principal and interest paid on long-term debt	(2,944,338)	(541,252)	-
Net cash used in capital and related financing activities	(1,575,469)	(1,610,406)	-
Cash Flows from Investing Activities			
Interest received on investments	4,159	7,947	35,397
Sale of investments	-	-	83,409
Net cash provided by (used in) investing activities	4,159	7,947	118,806
Net Increase (Decrease) in Cash and Cash Equivalents	168,523	26,262	(87,046)
Cash and Cash Equivalents - Beginning of year	207,105	116,429	124,979
Cash and Cash Equivalents - End of year	\$ 375,628	\$ 142,691	\$ 37,933
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 241,478	\$ -	\$ 37,933
Restricted assets (Note 8)	134,150	142,691	-
Total cash and cash equivalents	\$ 375,628	\$ 142,691	\$ 37,933
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 584,425	\$ 769,511	\$ (170,572)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	1,260,517	480,494	375
Changes in assets and liabilities:			
Receivables	(104,596)	(114,808)	79,032
Prepaid expenses	9,341	(5,626)	1,042
Inventories	-	-	-
Accounts payable	(21,296)	492,256	(113,152)
Accrued and other liabilities	61,442	112,103	(2,786)
Net cash provided by (used in) operating activities	\$ 1,789,833	\$ 1,733,930	\$ (206,061)

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, there were no noncash investing, capital, or financing activities.

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2007**

Enterprise Funds			Governmental Activities
Automobile Parking System	Ice Arena	Total Enterprise Funds	Internal Service Fund
\$ 769,943	\$ 1,693,777	\$ 9,855,219	\$ 627,886
(524,602)	(1,400,167)	(6,312,491)	(550,003)
<u>30,618</u>	<u>-</u>	<u>344,543</u>	<u>9,248</u>
275,959	293,610	3,887,271	87,131
-	-	(55,000)	-
<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
-	-	(155,000)	-
(18,694)	-	(1,107,571)	(61,912)
-	121,000	1,509,592	40,141
<u>(523,205)</u>	<u>(417,006)</u>	<u>(4,425,801)</u>	<u>(37,367)</u>
(541,899)	(296,006)	(4,023,780)	(59,138)
36,485	1,582	85,570	22,734
<u>-</u>	<u>-</u>	<u>83,409</u>	<u>-</u>
<u>36,485</u>	<u>1,582</u>	<u>168,979</u>	<u>22,734</u>
(229,455)	(814)	(122,530)	50,727
<u>961,124</u>	<u>7,129</u>	<u>1,416,766</u>	<u>467,933</u>
<u>\$ 731,669</u>	<u>\$ 6,315</u>	<u>\$ 1,294,236</u>	<u>\$ 518,660</u>
\$ 421,149	\$ 6,315	\$ 706,875	\$ 518,660
<u>310,520</u>	<u>-</u>	<u>587,361</u>	<u>-</u>
<u>\$ 731,669</u>	<u>\$ 6,315</u>	<u>\$ 1,294,236</u>	<u>\$ 518,660</u>
\$ 149,617	\$ 106,845	\$ 1,439,826	\$ 3,468
205,834	181,533	2,128,753	48,808
(10,137)	7,176	(143,333)	26,357
-	-	4,757	(1,863)
-	6,621	6,621	-
11,926	5,471	375,205	7,038
<u>(81,281)</u>	<u>(14,036)</u>	<u>75,442</u>	<u>3,323</u>
<u>\$ 275,959</u>	<u>\$ 293,610</u>	<u>\$ 3,887,271</u>	<u>\$ 87,131</u>

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefits Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 1,415,628	\$ 172,908
Investments (Note 3):		
Common stock	26,224,676	-
U.S. government agency securities	13,047,194	-
U.S. Treasury notes	2,619,297	-
Corporate bonds	11,405,569	-
Mutual funds	7,631,784	-
Receivables - Accrued interest	219,425	-
Total assets	62,563,573	\$ 172,908
Liabilities		
Accounts payable	52,660	
Due to other governmental units	-	\$ 2,667
Cash bonds and deposits	-	170,241
Total liabilities	52,660	\$ 172,908
Net Assets - Held in trust for pension and other employee benefits		\$ 62,510,913

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Employees' Retirement System Year Ended June 30, 2007

Additions

Investment income:	
Interest and dividends	\$ 2,327,941
Net increase in fair value of investments	6,795,232
Less investment expenses	<u>(321,193)</u>
Net investment income	8,801,980
Property taxes	368,206
Contributions:	
Employer	469,985
Employee	<u>270,939</u>
Total contributions	<u>740,924</u>
Total additions	9,911,110

Deductions

Benefit payments	3,911,978
Transfer of funds to other pension systems	1,661,478
Refunds of contributions	<u>165,106</u>
Total deductions	<u>5,738,562</u>

Net Increase

4,172,548

Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>58,338,365</u>
End of year	<u><u>\$ 62,510,913</u></u>

City of Mount Clemens, Michigan

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 528,892	\$ -	\$ 528,892
Assets held for resale	151,892	-	151,892
Taxes receivable	3,123	-	3,123
Prepaid expenses	818	-	818
Total assets	684,725	-	684,725
Liabilities - Accounts payable	51,451	-	51,451
Net Assets - Unrestricted	<u>\$ 633,274</u>	<u>\$ -</u>	<u>\$ 633,274</u>

City of Mount Clemens, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/ Contributions
Downtown Development Authority - Public works	\$ 582,522	\$ 154,678	\$ -
Brownfield Redevelopment Authority - General government	98,443	-	98,443
Total governmental activities	\$ 680,965	\$ 154,678	\$ 98,443

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (427,844)	\$ -	\$ (427,844)
-	-	-
(427,844)	-	(427,844)
506,482	-	506,482
10,604	-	10,604
517,086	-	517,086
89,242	-	89,242
544,032	-	544,032
\$ 633,274	\$ -	\$ 633,274

City of Mount Clemens, Michigan

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of 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. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are 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 Authority's governing body, which consists of 11 individuals, is selected by the City Commission. In addition, the Authority'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.

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.

Note I - Summary of 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. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented 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 identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general 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.

The City reports the following major governmental fund:

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

The City reports the following major Enterprise 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.

Note I - Summary of Significant Accounting Policies (Continued)

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 fund types:

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

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

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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 when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is susceptible to accrual - that is, when 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, state-shared revenue, and interest are all considered to be susceptible to accrual.

Note 1 - Summary of Significant Accounting Policies (Continued)

All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absence expenditures are recorded only when payment is due.

Proprietary funds distinguish between operating revenue and expenses and nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. 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.

Private sector standards of accounting issued on or before November 30, 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 apply private sector standards issued after November 30, 1989 to its business-type activities and Enterprise Funds.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

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 an original maturity of three months or less. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds within the governmental and business-type activities columns are reported as "due 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."

Property Taxes - 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.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2006 ad valorem tax is levied and collectible on July 1, 2006, and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled approximately \$424.3 million, on which ad valorem taxes levied consisted of 13.7097 mills for operating purposes, 3.0275 mills for debt service, 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 \$5.7 million for operating purposes, \$1.3 million for debt service, \$380,000 for Police and Fire Pension, and \$378,000 for Dial-A-Ride services. These amounts are recognized in the respective General, Special Revenue, Debt Service, Enterprise, and Fiduciary Funds financial statements as tax revenue.

Inventories - 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.

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.

Capital Assets - Capital assets, which include property, plant, equipment, 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 \$2,500 and an estimated useful life of more than 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.

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

Roads and bridges	25 to 40 years
Sidewalks	20 years
Buildings and 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

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and 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 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 statement of net assets. Bond premiums and discounts and the deferred amount on refundings are deferred and amortized over the life of the bonds. 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 governmental 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.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

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 revenues. 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.

Fund Deficits - The City has accumulated deficits of unrestricted net assets in the Water and Ice Arena individual funds. Plans to eliminate the deficits will be filed with the State of Michigan Local Audit Finance Division.

Noncompliance with Legal or Contractual Provisions - At June 30, 2007, the City was not in compliance with the provisions of the Sewage Disposal and Water Supply revenue bond covenants, which require cash and cash equivalents to be accumulated in a restricted account (see Note 8 for further disclosure).

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

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

State 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 activity for the year ended June 30, 2007 is as follows:

Cumulative shortfall - July 1, 2006		\$ (843,556)
Building permit revenue		213,938
Related expenditures:		
Direct costs	\$ 274,524	
Estimated indirect costs	<u>27,452</u>	
Total construction code expenses		<u>301,976</u>
Excess of expenditures over revenue		<u>(88,038)</u>
Cumulative shortfall - June 30, 2007		<u><u>\$ (931,594)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which 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.

Note 3 - Deposits and Investments (Continued)

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, 2007, the City's deposits and investments are in accordance with statutory authority.

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

Custodial Credit Risk - City-wide Bank Deposits and Investments - 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. 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 \$6.46 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 Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

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

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	How Held
Negotiable certificate of deposits	\$ 532,809	\$ -	Counterparty
Collateralized mortgage obligations	-	5,343,571	Counterparty
United States government agency securities	-	13,047,194	Counterparty
United States government treasury bonds	-	2,619,297	Counterparty
Corporate asset backed	-	1,512,211	Counterparty
Corporate bonds	-	4,549,786	Counterparty
Equity securities	-	26,224,676	Counterparty
Total uninsured and unregistered	<u>\$ 532,809</u>	<u>\$ 53,296,735</u>	

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 average maturities of investments are as follows:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
Negotiable certificate of deposits	\$ 532,809	\$ -	2.80 years
Collateralized mortgage obligations	-	5,343,571	31.16 years*
United States government agency securities	-	13,047,194	25.18 years*
United States government treasury bonds	-	2,619,297	13.52 years*
Corporate asset backed	-	1,512,211	12.63 years*
Corporate bonds	-	4,549,786	10.43 years*
Total uninsured and unregistered	<u>\$ 532,809</u>	<u>\$ 27,072,059</u>	

* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 3.00 percent to 9.5 percent.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

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

Investment Type	Fair Value	Rating	Rating Organization
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 5,622,634	Not rated	Not rated
Federal National Mortgage Association	7,299,204	Not rated	Not rated
Corporate bonds	4,549,786	BBB- to AA-	Standards and Poor's
Collateralized mortgage obligations	5,343,571	NR to AAA	Standards and Poor's
U.S. government bonds	2,619,297	AAA	Standards and Poor's
Corporate asset backed	1,512,211	AAA	Standards and Poor's
Negotiable certificate of deposits	149,063	Not rated	Not rated
Negotiable certificate of deposits	383,746	Not rated	Not rated

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. The City and City's Pension Fund do not limit investments in any one issuer. At June 30, 2007, the City's Pension Fund maintained investments in the Federal National Mortgage Association totaling approximately 11.71 percent of the pension fund's total investments, and investments in the Federal Home Loan Mortgage Corporation totaling approximately 9.02 of the pension fund's total investments. The City-wide funds maintained investments in the following banking institutions at June 30, 2007:

Institution	Fair Value
Federal Home Loan Bank	\$ 149,063
Main Street Bank Northville Michigan	383,747

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Receivables and Deferred Revenue

The following is the detail of the governmental activities due from other governmental units at June 30, 2007:

	General Fund	Other Nonmajor Funds	Total
State of Michigan	\$ 652,179	\$ 155,436	\$ 807,615
Other	<u>317,368</u>	<u>21,581</u>	<u>338,949</u>
Total	<u>\$ 969,547</u>	<u>\$ 177,017</u>	<u>\$ 1,146,564</u>

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:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 40,735	\$ -
Personal property taxes levied but not available to pay for current expenditures	64,634	
Other grants/revenues earned but not available to pay for current expenditures	70,000	-
Grant payments received prior to meeting all eligibility requirements	<u>-</u>	<u>48,199</u>
Total	<u>\$ 175,369</u>	<u>\$ 48,199</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,791,978	\$ -	\$ -	\$ 2,791,978
Construction in progress	728,338	4,392,134	-	5,120,472
Subtotal	3,520,316	4,392,134	-	7,912,450
Capital assets being depreciated:				
Roads and bridges	8,929,463	738,835	-	9,668,298
Sidewalks	1,758,592	-	-	1,758,592
Buildings and improvements	2,876,224	-	-	2,876,224
Land improvements	2,873,019	6,495	-	2,879,514
Machinery and equipment	4,702,084	123,373	-	4,825,457
Subtotal	21,139,382	868,703	-	22,008,085
Accumulated depreciation:				
Roads and bridges	3,930,336	373,129	-	4,303,465
Sidewalks	1,153,875	68,426	-	1,222,301
Buildings and improvements	1,926,025	57,387	-	1,983,412
Land improvements	2,133,754	108,517	-	2,242,271
Machinery and equipment	3,566,216	238,068	-	3,804,284
Subtotal	12,710,206	845,527	-	13,555,733
Net capital assets being depreciated	8,429,176	23,176	-	8,452,352
Net capital assets	\$ 11,949,492	\$ 4,415,310	\$ -	\$ 16,364,802

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance	Additions	Disposals and	Balance
	July 1, 2006		Adjustments	June 30, 2007
Capital assets not being depreciated:				
Land	\$ 3,706,362	\$ -	\$ -	\$ 3,706,362
Construction in progress	-	1,347,424	-	1,347,424
Subtotal	3,706,362	1,347,424	-	5,053,786
Capital assets being depreciated:				
Plant facilities	23,760,513	-	-	23,760,513
Production facilities	6,380,759	-	-	6,380,759
Transmission facilities	14,554,277	-	-	14,554,277
Tunnels and retention basins	37,943,645	-	-	37,943,645
Machinery and equipment	8,475,958	68,754	-	8,544,712
Land improvements	5,367,029	-	-	5,367,029
Subtotal	96,482,181	68,754	-	96,550,935
Accumulated depreciation:				
Plant facilities	7,928,394	403,445	-	8,331,839
Production facilities	3,620,101	111,638	-	3,731,739
Transmission facilities	4,384,624	217,041	-	4,601,665
Tunnels and retention basins	10,144,846	701,501	-	10,846,347
Machinery and equipment	6,752,089	486,203	-	7,238,292
Land improvements	2,642,570	208,925	-	2,851,495
Subtotal	35,472,624	2,128,753	-	37,601,377
Net capital assets being depreciated	61,009,557	(2,059,999)	-	58,949,558
Net capital assets	\$ 64,715,919	\$ (712,575)	\$ -	\$ 64,003,344

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

Governmental activities:

General government	\$ 243,244
Public safety	85,146
Public works	469,707
Recreation and culture	47,430
Total governmental activities	<u>\$ 845,527</u>

Business-type activities:

Sewage disposal	\$ 1,260,517
Water supply system	480,494
Sanitary department	375
Automobile parking system	205,834
Ice arena	181,533
Total business-type activities	<u>\$ 2,128,753</u>

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end, including replacement of the backwash system in the water treatment plant, repairs to the elevated storage tank, and a water main replacement. At June 30, 2007, the City had spent \$1,347,424 to date on its commitments with contractors and had \$2,872,576 remaining commitments.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2007:

Receivable Fund	Payable Fund	Amount
General Fund	Sewage Disposal Fund	\$ 109,903
	Water Supply System Fund	<u>100,000</u>
Total General Fund		209,903
Sewage Disposal Fund	Water Supply System Fund	716,387
Sanitary Department Fund	Ice Arena Fund	<u>534,846</u>
Total		<u>\$ 1,461,136</u>

Interfund balances result primarily 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.

The details of the interfund transfers for the year ended June 30, 2007 are as follows:

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

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

Funds Transferred From	Funds Transferred To	Amount
General Fund	Ice Arena Fund	\$ 121,000
Sanitary Department Fund	Other governmental funds	55,000
Other governmental funds	Sewage Disposal Fund	1,388,592 (1)
	Other governmental funds	<u>189,037 (2)</u>
	Total other governmental funds	<u>1,577,629</u>
	Total	<u>\$ 1,753,629</u>

(1) Transfer of debt service levy for payment of Unlimited Tax General Obligation Bonds

(2) Transfer of funds for debt service (\$29,037) and transfer of Act 51 revenue-sharing payments from Major Streets Fund to Local Streets Fund as permitted by State law

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. 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 reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds - 1992 Michigan					
Transportation Bonds	\$ 75,000	\$ -	\$ 25,000	\$ 50,000	\$ 25,000
Installment Purchase Agreement - Fire pumper	175,015	-	31,825	143,190	33,600
Special Assessment Obligations:					
1999 Road Improvement Bonds	155,000	-	80,000	75,000	75,000
1999 B Road Improvement Bonds	275,000	-	175,000	100,000	100,000
General Obligation Bonds - Series 2006					
41B District Court Building (Note 13)	-	3,510,000	13,000	3,497,000	52,000
Total accrued sick and vacation liability	768,848	2,729	106,974	664,603	300,000
Total governmental activities	\$ 1,448,863	\$ 3,512,729	\$ 431,799	\$ 4,529,793	\$ 585,600
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
General Obligation Bonds:					
1986 Wastewater Treatment Facility Bonds - Net of unamortized discount	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ -
State Combined Sewer Overflow Revolving Fund Debt:					
1998A Sewage Disposal System Bonds	3,960,000	-	245,000	3,715,000	250,000
1998A-2 Sewage Disposal System Bonds	3,279,964	-	204,293	3,075,671	209,160
1999A Sewage Disposal System Bonds	6,170,000	-	375,000	5,795,000	385,000
1998 B Sewage Disposal System Bonds	1,425,000	-	75,000	1,350,000	75,000
1999 B Sewage Disposal System Bonds	800,000	-	50,000	750,000	50,000
2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges	3,158,335	16,667	270,000	2,905,002	270,000
2003 Parking Improvement Bonds	5,025,000	-	225,000	4,800,000	150,000
Revenue Obligations:					
1992 Sanitary Sewage Disposal System Bonds - Net of unamortized discount	198,005	666	50,000	148,671	75,000
1998B Water Supply System Revenue Bonds	675,000	-	25,000	650,000	25,000
State Drinking Water Revolving Fund Debt:					
1998A Water Supply System Revenue Bonds	640,000	-	40,000	600,000	40,000
1998A-2 Water Supply System Revenue Bonds	1,493,000	-	94,000	1,399,000	94,000
1999A Water Supply System Revenue Bonds	3,630,000	-	220,000	3,410,000	225,000
2000A Water Supply System Revenue Bonds	1,555,000	-	85,000	1,470,000	90,000
2000A-2 Water Supply System Revenue Bonds	1,740,000	-	90,000	1,650,000	90,000
2007A Water Supply System Revenue Bonds	-	270,179	-	270,179	160,000
Long-term portion of accrued sick and vacation liability	196,796	5,154	-	201,950	-
Total business-type activities	\$ 35,446,100	\$ 292,666	\$ 3,548,293	\$ 32,190,473	\$ 2,188,160

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity (excluding amortization of discounts and deferred charges) for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 285,600	\$ 166,508	\$ 452,108	\$ 2,188,160	\$ 1,024,758	\$ 3,212,918
2009	111,895	154,652	266,547	2,258,198	996,909	3,255,107
2010	101,656	149,872	251,528	2,157,886	851,502	3,009,388
2011	103,039	145,567	248,606	2,217,250	782,759	3,000,009
2012-2016	403,000	675,350	1,078,350	12,371,210	2,792,860	15,164,070
2017-2021	676,000	564,382	1,240,382	9,942,146	917,677	10,859,823
2022-2031	2,184,000	533,351	2,717,351	1,005,000	41,900	1,046,900
Total	<u>\$ 3,865,190</u>	<u>\$ 2,389,682</u>	<u>\$ 6,254,872</u>	<u>\$ 32,139,850</u>	<u>\$ 7,408,365</u>	<u>\$ 39,548,215</u>

In connection with the ongoing Water Fund improvements described in Note 5, the City has issued bonds through the Michigan Drinking Water Revolving Loan Fund Program (DWRF). The annual debt service requirements to maturity disclosed above reflect the advances received through June 30, 2007. The total approved amount and advances to date are as follows.

	Total Approved Amount	June 30, 2007 Advances
2007 A	\$ 2,900,000	\$ 270,179
2008 B	320,000	-

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, 2007, \$3,000,000 of bonds outstanding are considered defeased.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Sewage Disposal Fund and Water Supply System Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2007:

	Sewage Disposal Fund	Water Supply System Fund
Revenue bond requirements:		
Bond reserve	\$ 75,500	\$ 83,500
Debt service:		
Principal	56,250	316,750
Interest	<u>2,400</u>	<u>84,961</u>
Total requirements	134,150	485,211
Shortfall at June 30, 2007	<u>-</u>	<u>(342,520)</u>
Restricted assets - June 30, 2007	134,150	142,691
Current liabilities payable from restricted assets	<u>(58,650)</u>	<u>(142,691)</u>
Net assets restricted for revenue bond ordinances	<u>\$ 75,500</u>	<u>\$ -</u>

At June 30, 2007, the City was not in compliance with the provisions of the Sanitary Sewage Disposal System Revenue Bond and Water Supply Revenue Bond covenants that require cash and cash equivalents to be accumulated in a restricted account. The City has adjusted water and sewer rates for fiscal year 2007 in order to accumulate cash reserves to correct this deficiency.

Restricted assets in the Auto Parking Fund at June 30, 2007 consist of unspent bond proceeds.

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.

Note 9 - Risk Management (Continued)

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 the administrator of a single-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 178 retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 105 current active employees. The plan does not issue a separate financial report.

Funding Policy - 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.

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 of 6.55 percent from fire employees, 1 percent from dispatchers, court employees, and nonbargaining clerical employees, and 5.3 percent from other general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs - For the year ended June 30, 2007, the City's annual pension cost of \$834,776 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006 using the entry age actuarial funding method. Significant actuarial assumptions used include: (a) a 7.5 investment rate of return and (b) projected salary increases of 5 percent to 28.6 percent per year. Both (a) and (b) include an inflation component of 5 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 an open basis for general employees and on a closed basis for police and fire employees. The remaining amortization period is 12 years for general employees and 16 years for police and fire employees.

Reserves - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 26,051,286
Reserve for retired benefit payments	36,459,627

Three-year Trend Information

	Fiscal Year June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 834,776	\$ 862,090	\$ 1,295,985
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 160 retirees are eligible. The City includes pre-Medicare retirees in its insured healthcare plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,449,000.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Designated Fund Balance

Fund balance in the General Fund at June 30, 2007 has been designated for the following purposes:

Environmental liability	\$	500,000
Ice Arena debt		400,000
Capital outlay		100,000
Sick and vacation liabilities		<u>600,000</u>
Total	\$	<u>1,600,000</u>

Note 13 - 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.

The City's interest in the net assets of the Authority totaled \$215,746 at June 30, 2007 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, which would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 13 - Joint Venture (Continued)

The City is also a member of the 41B District Court Common Fund (the "Court"), a joint venture which 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 and related bonded debt obligations in the governmental activities statements based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 14 - Environmental Liability

The City has recorded a liability of \$375,000 related to remediation activities on a former municipal landfill, including the installation of an interception system and one year's monitoring and maintenance. Elevated levels of methane gas were detected at this site and the City has worked with the Michigan Department of Environmental Quality to determine the appropriate interim responses to vent and monitor the methane. Continued maintenance and monitoring will potentially be required, which the City has estimated could range from \$26,000 to \$110,000 annually. An estimate of the total liability cannot reasonably be determined due to the significant uncertainty as to the duration and extent of future monitoring requirements; therefore, no liability has been recorded as of June 30, 2007 for these amounts.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government in recognizing pollution remediation expenses and obligations to address current or potential detrimental effects of existing pollution. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Current taxes	\$ 5,662,000	\$ 5,677,920	\$ 5,481,589	\$ (196,331)
Penalties and interest on delinquent taxes	40,000	44,000	44,056	56
Business licenses and permits	22,000	30,000	29,083	(917)
Nonbusiness licenses and permits	337,700	257,000	230,761	(26,239)
State-shared taxes	2,123,000	2,098,000	2,080,671	(17,329)
Grants	-	85,125	136,124	50,999
Charges, services, and fees	365,500	377,150	382,027	4,877
Charges for services rendered	375,000	375,000	375,000	-
Charges for services and sales	19,500	19,500	13,603	(5,897)
Use and admission fees	20,000	20,000	26,835	6,835
Fines, forfeitures, and probation screening fees - 41st District Court	221,000	221,000	230,315	9,315
Interest earnings	30,000	90,000	105,005	15,005
Rents and royalties	18,500	22,250	19,107	(3,143)
Cable TV	155,000	181,650	179,398	(2,252)
Fringe benefit reimbursements	190,000	190,000	247,495	57,495
Refunds	255,000	340,000	335,937	(4,063)
Miscellaneous	138,900	289,715	331,358	41,643
Federal grant revenue	249,000	169,625	273,821	104,196
Total revenues	10,222,100	10,487,935	10,522,185	34,250

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures				
General government:				
City Commission	\$ 6,900	\$ 6,900	\$ 6,900	\$ -
City administrator	185,390	161,740	151,833	9,907
Elections	60,000	49,000	36,062	12,938
Legal services	190,000	140,000	132,966	7,034
Auditing services	48,000	48,000	48,000	-
Personnel	125,545	116,800	119,125	(2,325)
Community promotions	28,000	26,125	28,457	(2,332)
Telephone	62,000	57,000	42,105	14,895
Retirement system				
Assessor	139,545	110,630	112,430	(1,800)
Controller	80,910	78,660	80,264	(1,604)
Accounting	86,104	83,741	85,720	(1,979)
Treasurer	162,339	159,430	163,122	(3,692)
City clerk	165,684	129,940	128,873	1,067
Purchasing	166,060	151,902	141,986	9,916
Planning services	301,313	291,569	302,555	(10,986)
Maintenance of municipal buildings	169,860	171,860	163,667	8,193
Data processing	133,800	133,800	128,737	5,063
Cable television	100,000	100,000	95,640	4,360
Property tax refunds	8,750	50,000	49,817	183
Total general government	2,220,200	2,067,097	2,018,259	48,838
Public safety:				
Police	2,261,491	2,235,371	2,084,980	150,391
Dispatch center	279,682	279,682	279,682	-
Fire	1,542,172	1,380,668	1,366,317	14,351
Volunteer firemen	67,985	63,425	55,863	7,562
Inspection	359,181	289,001	274,524	14,477
Dog warden	28,915	26,650	22,789	3,861
Total public safety	4,539,426	4,274,797	4,084,155	190,642
Public works:				
Engineering	30,400	50,600	55,981	(5,381)
Supervision and overhead	74,475	71,853	70,482	1,371
Alleys	16,840	17,750	14,545	3,205
Street lighting	275,000	275,000	270,634	4,366
Sewage services	3,000	2,000	1,158	842
Community Development Block Grant	131,000	131,000	105,704	25,296
Miscellaneous	107,135	117,847	108,198	9,649
Total public works	637,850	666,050	626,702	39,348

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Recreation:				
Parks and stadium	\$ 212,595	\$ 211,604	\$ 214,549	\$ (2,945)
Programs	38,100	35,300	29,342	5,958
Art center	2,500	105,350	105,409	(59)
Total recreation	253,195	352,254	349,300	2,954
Other functions:				
Insurance and pension	2,073,046	2,094,911	2,031,532	63,379
Land acquisitions and building improvements	-	128,185	136,167	(7,982)
Total other functions	2,073,046	2,223,096	2,167,699	55,397
Total expenditures	9,723,717	9,583,294	9,246,115	337,179
Excess of Revenue Over Expenditures	498,383	904,641	1,276,070	371,429
Other Financing Uses - Transfers out	-	-	121,000	(121,000)
Change in Fund Balances	498,383	904,641	1,155,070	492,429
Fund Balance - Beginning of year	1,775,522	1,775,522	1,775,522	-
Fund Balance - End of year	<u>\$ 2,273,905</u>	<u>\$ 2,680,163</u>	<u>\$ 2,930,592</u>	<u>\$ 492,429</u>

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions June 30, 2007

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
06/30/01	\$ 55,197,296	\$ 50,112,203	\$ (5,085,093)	110.1	\$ 7,378,819	(68.9)
06/30/02	54,600,760	52,194,132	(2,406,628)	104.6	7,655,789	(31.4)
06/30/03	52,848,178	53,369,616	521,438	99.0	7,387,300	7.1
06/30/04	51,459,139	56,402,873	4,943,734	91.2	7,365,146	67.1
06/30/05	52,189,133	55,946,174	3,757,041	93.3	5,245,808	71.6
06/30/06	52,503,861	55,977,310	3,473,449	93.8	5,257,637	66.1

The schedule of employer contributions is as follows:

Years Ended June 30	Contribution Rates as a Percentage of Valuation Payroll		Annual Required Contribution Based on Actual Payroll	Percentage Contributed
	General Employees	Police and Fire Employees **		
2002	\$ -	\$ 14.27	\$ 479,340	100
2003	1.77	16.27	631,831	100
2004	6.38	19.30	943,334	100
2005	10.89	25.26	1,295,985	100
2006	11.77	34.24	862,090	100
2007	10.07	40.58	834,776	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll, open and closed periods
Remaining amortization period	General employees: Amendments - 18 years closed All others - 12 years open Police and fire employees - 16 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.0%-28.6%
*Includes inflation at	5%
Cost of living adjustments	None

** Effective for the year ended June 30, 2006, the contribution obligation for both police and firefighter members was expressed as a percentage of firefighter payroll.

Other Supplemental Information

City of Mount Clemens, Michigan

	Special Revenue Funds					
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	District Court Building	Total Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 949,332	\$ 126,114	\$ 475,171	\$ 39,980	\$ -	\$ 1,590,597
Receivables:						
Taxes	-	-	4,930	-	-	4,930
Special assessments	-	-	-	-	-	-
Other governmental units	124,752	45,355	6,910	-	-	177,017
Accrued interest and other	-	-	9,594	2,014	-	11,608
Prepaid expenses	-	-	8,624	-	-	8,624
Total assets	<u>\$ 1,074,084</u>	<u>\$ 171,469</u>	<u>\$ 505,229</u>	<u>\$ 41,994</u>	<u>\$ -</u>	<u>\$ 1,792,776</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 108,598	\$ 40,963	\$ 126	\$ 3,296	\$ -	\$ 152,983
Accrued and other liabilities	6,260	6,174	13,198	-	-	25,632
Deferred revenue	70,106	13,093	1,537	-	-	84,736
Total liabilities	184,964	60,230	14,861	3,296	-	263,351
Fund Balances						
Reserved:						
Debt service	-	-	-	-	-	-
Prepaid expenses	-	-	8,624	-	-	8,624
Unreserved	889,120	111,239	481,744	38,698	-	1,520,801
Total fund balances	<u>889,120</u>	<u>111,239</u>	<u>490,368</u>	<u>38,698</u>	<u>-</u>	<u>1,529,425</u>
Total liabilities and fund balances	<u>\$ 1,074,084</u>	<u>\$ 171,469</u>	<u>\$ 505,229</u>	<u>\$ 41,994</u>	<u>\$ -</u>	<u>\$ 1,792,776</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Debt Service Funds			
General Obligation Bonds	Nonvoted Debt Service Fund	Total Debt Service Funds	Total Nonmajor Governmental Funds
\$ -	\$ 389,617	\$ 389,617	\$ 1,980,214
-	-	-	4,930
-	40,735	40,735	40,735
-	-	-	177,017
-	-	-	11,608
-	-	-	8,624
<u>\$ -</u>	<u>\$ 430,352</u>	<u>\$ 430,352</u>	<u>\$ 2,223,128</u>
\$ -	\$ -	\$ -	\$ 152,983
-	-	-	25,632
-	40,735	40,735	125,471
-	40,735	40,735	304,086
-	389,617	389,617	389,617
-	-	-	8,624
-	-	-	1,520,801
<u>\$ -</u>	<u>\$ 389,617</u>	<u>\$ 389,617</u>	<u>\$ 1,919,042</u>
<u>\$ -</u>	<u>\$ 430,352</u>	<u>\$ 430,352</u>	<u>\$ 2,223,128</u>

City of Mount Clemens, Michigan

	Special Revenue Funds					
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Public Improvement	District Court Building	Total Special Revenue Funds
Revenue						
Property taxes	\$ -	\$ -	\$ 367,637	\$ -	\$ -	\$ 367,637
State-shared - Grants and other	727,439	262,695	-	-	-	990,134
Local intergovernmental revenue	-	-	54,373	-	-	54,373
Special assessments	-	-	-	33,034	-	33,034
Charges for services	-	-	64,077	-	-	64,077
Interest	55,853	9,912	31,222	750	3,350	101,087
Miscellaneous revenue	3,231	934	9,882	-	-	14,047
Total revenue	786,523	273,541	527,191	33,784	3,350	1,624,389
Expenditures						
Public works	837,526	562,103	533,514	40,096	882,134	2,855,373
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	837,526	562,103	533,514	40,096	882,134	2,855,373
Excess of Revenue Over (Under)						
Expenditures	(51,003)	(288,562)	(6,323)	(6,312)	(878,784)	(1,230,984)
Other Financing Sources (Uses)						
Transfers in	25,000	190,000	-	-	-	215,000
Transfers out	(168,112)	(20,925)	-	-	-	(189,037)
Total other financing sources (uses)	(143,112)	169,075	-	-	-	25,963
Net Change in Fund Balances	(194,115)	(119,487)	(6,323)	(6,312)	(878,784)	(1,205,021)
Fund Balances - Beginning of year	1,083,235	230,726	496,691	45,010	878,784	2,734,446
Fund Balances - End of year	\$ 889,120	\$ 111,239	\$ 490,368	\$ 38,698	\$ -	\$ 1,529,425

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Debt Service Funds			
General Obligation Bonds	Nonvoted Debt Service Fund	Total Debt Service Funds	Total Nonmajor Governmental Funds
\$ 1,257,066	\$ -	\$ 1,257,066	\$ 1,624,703
-	-	-	990,134
-	-	-	54,373
-	48,932	48,932	81,966
-	-	-	64,077
6,312	11,724	18,036	119,123
-	-	-	14,047
1,263,378	60,656	1,324,034	2,948,423
-	-	-	2,855,373
-	280,000	280,000	280,000
-	26,612	26,612	26,612
-	306,612	306,612	3,161,985
1,263,378	(245,956)	1,017,422	(213,562)
-	29,037	29,037	244,037
(1,388,592)	-	(1,388,592)	(1,577,629)
(1,388,592)	29,037	(1,359,555)	(1,333,592)
(125,214)	(216,919)	(342,133)	(1,547,154)
125,214	606,536	731,750	3,466,196
\$ -	\$ 389,617	\$ 389,617	\$ 1,919,042

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Fiduciary Funds - Agency Funds June 30, 2007

	<u>Tax Collections</u>	<u>Agency Fund</u>	<u>Total</u>
Assets - Cash and cash equivalents	<u>\$ 2,667</u>	<u>\$ 170,241</u>	<u>\$ 172,908</u>
Liabilities			
Due to other governmental units	\$ 2,667	\$ -	\$ 2,667
Cash bonds and deposits	<u>-</u>	<u>170,241</u>	<u>170,241</u>
Total liabilities	<u>\$ 2,667</u>	<u>\$ 170,241</u>	<u>\$ 172,908</u>

City of Mount Clemens, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

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 Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	7
Note to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9-12



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

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 as of and for the year ended June 30, 2007, which collectively comprise the City of Mount Clemens, Michigan's basic financial statements, and have issued our report thereon dated September 28, 2007. Those basic financial statements are the responsibility of the management of the City of Mount Clemens, Michigan. Our responsibility was to express opinions on those 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 basic 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 opinion.

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

September 28, 2007



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 as of and for the year ended June 30, 2007, which collectively comprise the City of Mount Clemens, Michigan's basic financial statements, and have issued our report thereon dated September 28, 2007. 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.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Clemens, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Clemens, Michigan's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiencies described in the schedule of findings and questioned costs as items 2007-1 and 2007-2 constitute material weaknesses.

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 matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as finding 2007-3.

The City of Mount Clemens, Michigan's response to the material weaknesses related to internal control over financial reporting and the noncompliance matter identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 28, 2007

Report on Compliance with Requirements Applicable to Each 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 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

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 the 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 the 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, 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 entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 28, 2007

City of Mount Clemens, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division - Urban Areas Security Initiative:	97.067			
Program year 2006		N/A	\$ 7,502	\$ 7,502
Program year 2007		N/A	4,632	<u>4,632</u>
Total U.S. Department of Homeland Security				12,134
U.S. Department of Housing and Urban Development - Passed through Macomb County - Community Development Block Grants/Entitlement Grants:	14.218			
Program year 2001		B-01-MC-26-0038	181,000	4,174
Program year 2002		B-02-MC-26-0038	163,000	12,873
Program year 2003		B-03-MC-26-0038	217,594	11,422
Program year 2004		B-04-MC-26-0038	157,460	828
Program year 2005		B-05-MC-26-0038	180,306	97,547
Program year 2006		B-06-MC-26-0038	174,000	<u>134,843</u>
Total Community Development Block Grants/Entitlement Grant				261,687
U.S. Environmental Protection Agency:				
The Brownfields Economic Redevelopment Initiative - Program year 2003	66.811	BF96527101	200,000	98,443
Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds:	66.468			
Project number 7143-01		DWRF#7143-01	3,900,000	519,786
Project number 7230-01		DWRF#7230-01	320,000	<u>9,617</u>
Total Drinking Water State Revolving Fund Grant				<u>529,403</u>
Total U.S. Environmental Protection Agency				<u>627,846</u>
Total federal awards				<u>\$ 901,667</u>

City of Mount Clemens, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements (includes all funds and component units)	\$ 372,264
Add federal funding for Drinking Water Revolving Funds not reported as revenue in the basic financial statements	<u>529,403</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 901,667</u>

City of Mount Clemens, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Mount Clemens, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

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 program(s):

- 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 program: 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(s):

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-1	<p>Finding Type - Material weakness</p> <p>Criteria - The City of Mount Clemens, Michigan (the "City") 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, 2007 basic financial statements with the assistance of the auditors.</p> <p>Context - None</p> <p>Cause and Effect - The resources of the finance department are sufficient for handling the day-to-day operations of the City, but personnel do not have 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>Views of Responsible Officials - 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, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-2	<p data-bbox="412 552 862 583">Finding Type - Material weakness</p> <p data-bbox="412 621 1425 919">Criteria - Reconciliation of key general ledger accounts to subsidiary ledgers, reports, and third-party statements, including a secondary review of the reconciliations, is an integral component of the City of Mount Clemens, Michigan's financial reporting and internal control structure. Reconciliations should result in the correction of the general ledger, when necessary, and items that are outstanding for more than one reconciliation period should be followed up on in a timely manner. Secondary reviews should be evidenced by the sign-off and date of the reviewer.</p> <p data-bbox="412 957 1425 1213">Condition - During the audit, we noted amounts on the year-end bank reconciliation that did not represent reconciling items, but were transactions that were recorded incorrectly in the general ledger. These items were corrected in the general ledger with our assistance. We also noted a transaction that had not been consummated by the bank and had been outstanding on the bank reconciliation for several months. Lastly, we did not note evidence of secondary review of the pension account reconciliations.</p> <p data-bbox="412 1251 634 1283">Context - None</p> <p data-bbox="412 1320 1425 1577">Cause and Effect - The amounts that were incorrectly included on the reconciliations related to transactions not typically encountered in the day-to-day operations of the City (draws on new debt and bond payments remitted early). These transactions were initially recorded improperly in the general ledger and resulted in reconciling items on the reconciliations. These items were corrected with the assistance of the auditors. The City's accounting policies did not require a secondary review of the pension reconciliations.</p> <p data-bbox="412 1614 1425 1803">Views of Responsible Officials - The City is aware of the importance of the reconciliation process and will adjust the general ledger appropriately in the future for those items that do not represent true reconciling items (such as timing differences or bank errors). The City also plans to implement a system for the pension account reconciliations to be reviewed.</p>

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-3	<p>Finding Type - Noncompliance</p> <p>Criteria - In accordance with revenue bond ordinances, 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, 2007 to meet the bond ordinance requirements.</p> <p>Context - The restricted assets in the Water Fund are \$342,520 less than the bond ordinance requirements.</p> <p>Cause and Effect - The Water Fund does not have sufficient cash to set aside for the bond requirements.</p> <p>Views of Responsible Officials - 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>

Section III - Federal Program Audit Findings

None



Plante & Moran, PLLC

Suite 300

19176 Hall Road

Clinton Township, MI 48038

Tel: 586.416.4900

Fax: 586.416.4901

plantemoran.com

September 28, 2007

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

Dear Mayor and Commissioners:

We have completed our audit of the financial statements of the City of Mount Clemens (the "City") for the year ended June 30, 2007. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Overview of the City's Financial Condition

During the year ended June 30, 2007, General Fund revenues exceeded expenditures by approximately \$1,163,000. As a result, fund balance at June 30, 2007, increased to approximately \$2,938,000, of which \$1,600,000 was designated for specific purposes, including employee compensated absences, and environmental remediation.

The City continues to be faced with budgetary challenges, as do many communities throughout the region. During the 2006-2007 fiscal year, the City experienced only modest growth in property tax revenue and further reduction of state revenue sharing. To the positive, the reduction of public safety expenditures of the City's agreement with Macomb County to provide law enforcement and emergency dispatch services continues to benefit the General Fund. Additionally, most departments were near or below budgeted expenditures. Despite these successes, many challenges directly resulting from the difficult economic period that has been experienced in the State of Michigan remain, including the potential for further reductions in state revenue sharing payments. Other challenges, such as the limited ability to experience growth in property tax revenue, and future capital equipment and infrastructure needs are a characteristic of the City and its physical framework. We encourage the City commission and administration to continue to closely monitor the budget in order to continue to accumulate fund balance reserves.

We also recommend that the five-year General Fund financial forecasting model be updated to allow the City to better predict the effects of revenue changes and what impact those changes have on the City's ability to provide services. It is important that the City maintain an adequate level of working capital and fund balance to adjust to financial changes without affecting the level of services provided to citizens or the City's ability to fund future obligations.

Financial Condition of Enterprise Funds

Revenue Bond Covenants - The City is subject to bond covenants for the revenue bond issues in the Water Supply and Sewage Disposal Funds. Specifically, the City is legally required to maintain and restrict adequate cash reserves for debt service payments and additional bond reserves. At June 30, 2007, the City's cash balances in the Water Supply Fund were approximately \$343,000 below the reserve requirements, meaning that the City is in violation of its debt covenants again this year. We recommend that the City continue to evaluate water and sewer usage rates in order to ensure that all debt service requirements and the bond reserve requirements are met in the future and that the funds have adequate cash to meet operating and future capital improvement needs.

Fund Deficits - As disclosed in the notes to the financial statements, both the Water Supply and Ice Arena Enterprise Funds had a deficit of unrestricted net assets at June 30, 2007. As a result, the City is required to document and submit a plan to eliminate the deficits with the State of Michigan.

Interfund Balances - Cumulative through June 30, 2007, the Sewage Disposal Fund has advanced approximately \$716,000 to the Water Supply Fund, but there is currently no plan in place to repay the Sewer Fund. We recommend the City evaluate the ability of the Water Fund to repay the amounts owed and establish a repayment plan.

Funding of Postemployment Benefit Obligations

The City provides postemployment benefits to retirees that are funded currently based on the premiums required every year to provide health coverage. For the year ended June 30, 2007, the cost of these benefits amounted to approximately \$1,449,000. The City has experienced significant increases to postemployment health care costs over the past several years, and this annual cost is expected to continue to grow as the average age of the City's workforce and the number of former employees eligible for postemployment benefits increases.

The Governmental Accounting Standards Board issued Statement Number 45, *Accounting and Reporting by employers for Postemployment Benefit Obligations Other Than Pensions* (GASB 45,) which requires governments to recognize the cost of providing retiree health coverage during an individual's employment, rather than at the time the premiums are paid. While GASB No. 45 does not require the City to pre-fund retiree health care benefits, it does require an actuarial valuation to be performed to measure the obligation and a long-term liability to be recorded to the extent that the annual required contribution calculated by the actuary is not made, similar to the required accounting for the Employees' Retirement System. The statement is not effective until the City's 2008-2009 fiscal year; however, we understand that the City has begun evaluating the pre-funding postemployment benefit obligations on an actuarial basis. Actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles. We would be happy to further assist the City in this endeavor.

Revenue Sharing

As you are aware, reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The future of the State's revenue sharing program continues to be directly tied to the condition

of the State's budget as the State's budget shortfalls continue to be significant. The magnitude of the State's deficit became even more pronounced after the State's January and May 2007 revenue estimating conferences. In order to avoid a shut down of the State government as a result of the projected \$1.8 billion deficit in the State's original 2007/2008 budget, increases to personal income tax and sales tax on certain services were approved which are projected to raise approximately \$1.5 billion. A continuation budget was approved which will allow thirty days for the remaining budget gap to be resolved. The outcome of other matters will also impact revenue sharing, including:

- **Future of County Participation in Statutory Revenue Sharing.** In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund," which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing Formula Expires in 2007.** Legislative action is required on this Act for appropriations to continue into 2008 and beyond. This portion represents approximately \$922,000 of the City's \$2,058,000 distribution for the year ended June 30, 2007.
- **Changes to Michigan's Tax Structure.** The Michigan Single Business Tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the Single Business Tax – called the new Michigan Business Tax – was approved by the Legislature. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the Single Business Tax. Technical corrections on this recently passed law are still pending and, as the law is already lengthy and complex, the true financial impact on the State's budget is hard to predict.

As introduced, the Governor's budget for fiscal year 2007/2008 included a revenue sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue sharing act (taxable value per capita, population/unit type and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. However, as negotiations continue to determine where expenditure cuts will take place to bridge the \$300 million gap between the \$1.8 billion budget deficit noted above and the tax increases already approved, it is uncertain whether these increases will be realized.

While the debate is in process and all indications point to a very busy October for the Legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing and the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State. We will continue to provide updates to you as events unfold.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. Eight new auditing standards have been issued (Statements on Auditing Standards 104 through 111) that require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for all entities into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically to management and the Commission about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's finance department during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and

financial reporting processes and controls. We believe that these new rules, and the additional communications the Commission will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

Report on Internal Controls

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the City's financial management. Specifically, they require us to report internal control issues to you that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new communication will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City, as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that the following deficiencies constitute material weaknesses:

Accrual Adjustments – During the audit we generally provide significant assistance in identifying and calculating the numerous year-end accrual adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement 34. Accruals represent adjustments other than cash activity that impact the accounting records (accounts payable and construction retainages, property tax and grant receivables, capital assets, pension general ledger balances, long term debt and deferred charges, modified accrual revenue recognition, etc.). We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as pension reserves and bond reserve requirements) and researching proper accounting treatment for significant unusual

transactions that may occur during the year (such as separation of the 41-B District Court and environmental remediation activities.) We are pleased to assist in this process – our auditors have expertise in these sorts of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

Account Reconciliations – Sound internal control includes the reconciliation of general ledger accounts to supporting subsidiary ledgers, reports, and third-party statements on a periodic basis, including a secondary review of the reconciliations. During our audit we noted that the City's cash and pension accounts are reconciled to supporting records; however a secondary review of the pension reconciliations is not performed. We also noted amounts listed as outstanding items on the cash account reconciliations that were actually transactions recorded incorrectly in the City's accounting records and one item that was outstanding for several months that required follow up with the bank. The monthly reconciliation of accounts helps ensure that accurate financial information is available on a timely basis and serves as an important internal control. We recommend that secondary review of the pension reconciliations be performed and that items requiring adjustment to the general ledger or communication with the bank be addressed in a timely manner.

These material weaknesses are also required to be reported 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*, which is included in the supplementary schedule of federal financial assistance (the single audit report). Management has evaluated these matters and documented their action plan within the report.

We noted other internal control matters during the course of the audit that are not considered to be material weaknesses or significant deficiencies, but we believe warrant your attention and consideration:

Segregation of Duties – The segregation of duties is a critical component of internal control. When job responsibilities and access to accounting data are properly segregated, the risk of intentional or unintentional error or omission in the accounting records is reduced as a system of "checks and balances" is created. During our review of the City's accounting procedures, it was noted that the human resources director has the ability to input new employees and pay rates into the payroll system, post journal entries, process payroll, and has access to payroll checks before distribution. As a matter of practice, payroll is typically processed and distributed by individuals other than the human resources director. However, this level of access in the system creates a potential lack of segregation that should be considered.

Cash Collections – Due to capacity limitations of the equipment used to collect parking meter receipts, our understanding is that the collections cart is often emptied prior to being taken to the bank for deposit. Though this is done to create efficiency by limiting the number of trips that are made to the bank, it diminishes the internal control over these collections. We strongly recommend that the City review the equipment being used in order to facilitate increased safeguards over cash.

This communication is intended solely for the information and use of management and the Commission 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

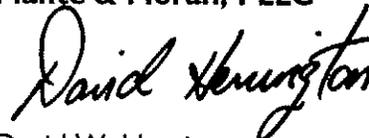
-7-

September 28, 2007

We would like to thank the mayor and City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC



David W. Herrington



Lisa C. Manetta