

**CITY OF CLAWSON
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2013**

CITY OF CLAWSON
For the Year Ended June 30, 2013

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FINANCIAL SECTION

PSLZ LLP

Certified Public Accountants

PLYMOUTH

1034 WEST ANN ARBOR TRAIL
P.O. BOX 5520
PLYMOUTH, MI 48170-1502
Telephone (734) 453-8770

Dennis M. Siegner, C.P.A., C.V.A.
David R. Williamson, C.P.A.
Jane F. Wang, C.P.A.
Rana M. Emmons, C.P.A.
Jennifer A. Galofaro, C.P.A., C.V.A.
Susan H. Bertram, C.P.A.

BLOOMFIELD HILLS

3707 WEST MAPLE ROAD
SUITE 101
BLOOMFIELD HILLS, MI 48301-3212
Telephone (248) 644-9125

Deborah M. Cox, C.P.A.

Independent Auditor's Report

October 29, 2013

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan, as of June 30, 2013, and the respective changes in financial position and, where

Mayor and Members of the City Council
City of Clawson, Michigan
October 29, 2013

Opinions-continued

applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clawson, Michigan's basic financial statements as a whole. The combining nonmajor fund financial statements and the schedules of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2013, on our consideration of the City of Clawson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in consideration of the City of Clawson's internal control over financial reporting and compliance.

Respectfully,

PSLZ, LLP

PSLZ LLP

Certified Public Accountants



City of Clawson

425 North Main Street / Clawson, Michigan 48017
(248) 435-4500 FAX (248) 435-0515

Management's Discussion and Analysis

As management of the City of Clawson, we offer readers of the City of Clawson's financial statements this narrative overview and analysis of the financial activities of the City of Clawson for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the City of Clawson exceeded its liabilities at the close of the most recent fiscal year by \$18,772,138 (*net position*). Of this amount, \$2,055,393 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$3,360,102, a decrease of \$226,229 in comparison with the prior year. Approximately 40 percent of this amount, \$1,333,985 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- The City of Clawson's total contractual and bonded debt increased by \$1,313,514 during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

POLICE & FIRE
(248) 435-5000
Fax (248) 435-4847

PUBLIC WORKS
(248) 288-3222
Fax (248) 288-3973

RECREATION
(248) 589-0334
Fax (248) 588-5013

LIBRARY
(248) 588-5500
Fax (248) 588-3114

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

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

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

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

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

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer system and for senior citizen housing, the first of which is considered to be a major fund of the City of Clawson.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Clawson's progress in funding its obligation to provide pension benefits to its employees. This information can be found on pages 48-49 of this report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 52-55 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Clawson, assets exceeded liabilities by \$18,772,138 at the close of the most recent fiscal year.

By far the largest portion of the City of Clawson's net position (77 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, office equipment, furniture, and other equipment); less any related debt used to acquire those assets that are still outstanding. The City of Clawson used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Clawson's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CLAWSON Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 4,655,089	\$ 4,568,435	\$ 3,511,854	\$ 3,170,921	\$ 8,166,943	\$ 7,739,356
Capital Assets	31,178,592	28,350,893	14,168,749	12,158,385	45,347,341	40,509,278
Total Assets	35,833,681	32,919,328	17,680,603	15,329,306	53,514,284	48,248,634
Long-term Liab Outstanding	24,891,022	22,600,878	7,935,544	6,338,839	32,826,566	28,939,717
Other Liabilities	1,231,998	730,628	683,582	417,044	1,915,580	1,147,672
Total Liabilities	26,123,020	23,331,506	8,619,126	6,755,883	34,742,146	30,087,389
Net Position:						
Invested in Capital Assets, net of related debt	8,133,773	7,105,893	6,415,656	5,848,923	14,549,429	12,954,816
Restricted	1,656,580	1,959,504	510,736	-	2,167,316	1,959,504
Unrestricted	(79,692)	522,425	2,135,085	2,724,500	2,055,393	3,246,925
Total Net Position	\$ 9,710,661	\$ 9,587,822	\$ 9,061,477	\$ 8,573,423	\$ 18,772,138	\$ 18,161,245

The remaining balance of *unrestricted net position* \$2,055,393 may be used to meet the City's ongoing obligations to citizens and creditors. A portion of net position are restricted for specific purposes (\$2,167,316).

During the current fiscal year, net position increased by \$610,893, as a result of operational surpluses in both activities.

Governmental activities. Governmental activities increased the City of Clawson's net position by \$122,839. Revenues increased by 6% while expenses increased only 2%.

City of Clawson – Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,052,002	\$ 1,082,919	\$ 4,263,348	\$ 4,079,830	\$ 5,315,350	\$ 5,162,749
Operating Grants & Contributions	846,342	735,547	-	154,276	846,342	889,823
Capital Grants & Contributions	289,783	51,003	-	-	289,783	51,003
General Revenues:						
Property Taxes	7,304,624	6,945,455	716,692	661,547	8,021,316	7,607,002
State Shared Revenues	992,757	1,022,611	-	-	992,757	1,022,611
Franchise Fees	196,273	190,991	-	-	196,273	190,991
Gain on Asset Sales	-	-	-	-	-	-
Unrestricted Investment Earnings	34,630	40,938	2,423	2,073	37,053	43,011
Total Revenues	10,716,411	10,069,464	4,982,463	4,897,726	15,698,874	14,967,190
Expenses:						
General Government	3,060,839	2,708,709	-	-	3,060,839	2,708,709
Public Safety	2,610,208	2,738,188	-	-	2,610,208	2,738,188
Public Works	2,127,079	2,093,015	-	-	2,127,079	2,093,015
Sanitation	851,118	761,924	-	-	851,118	761,924
Health and Welfare	219,262	197,600	-	-	219,262	197,600
Recreation and Cultural	1,008,145	1,178,725	-	-	1,008,145	1,178,725
Interest on Long-Term Debt	746,921	769,010	-	-	746,921	769,010
Water and Sewer	-	-	4,418,929	4,228,423	4,418,929	4,228,423
Senior Housing	-	-	45,480	42,054	45,480	42,054
Total Expenses	10,623,572	10,447,171	4,464,409	4,270,477	15,087,981	14,717,648
Change in Net Position before Transfers	92,839	(377,707)	518,054	627,249	610,893	249,542
Transfers from Component Unit	-	60,000	-	-	-	60,000
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	\$ 122,839	\$ (287,707)	\$ 488,054	\$ 597,249	\$ 610,893	\$ 309,542

Business-type activities. Business-type activities increased the City of Clawson's net position by \$488,054. Key elements of this increase are as follows:

- Voter approved tax levy of \$716,692 for debt service payments.
- Clawson continues to see modest increases in the water rate, and a slight increase in the sewer rate. The City is also completing a sewer rehabilitation program that will repair or replace the worst sewers in the City. That fee during the 2012-2013 fiscal years was \$13.05 per quarter for a residential customer. This program is run through the State Revolving Fund and is a low interest loan to complete the repairs to the sewer system. This loan must be paid back through revenues of the water and sewer system. The consumption rates went down for water and sewer during the fiscal year, but the fixed rate costs went up.
- The average monthly charge for a water and sewer residential customer increased from \$32.50 to \$38.10 which is approximately 17.2%.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Clawson's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Clawson's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$3,360,102, a decrease of 226,229 in comparison with the prior year. Thirty nine percent of this total amount \$1,333,985 constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. Details of fund balance allocation are found in the notes to the financial statements.

The general fund is the chief operating fund of the City of Clawson. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,023,985, while total fund balance is \$1,685,546. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 14 percent of total general fund expenditures, while total fund balance represents 18 percent of that same amount.

The fund balance of the City of Clawson's general fund increased by \$79,450 during the current fiscal year. Key factors in this increase are as follows:

- Revenues increased for the first time in five years due to a slight increase in taxable property value, which is the basis for our tax revenue. This marks the first time in four years that the City did not need to utilize fund balance to balance the budget. The City Council has a fund balance policy that keeps 10% of annual expenditures in an emergency-only reserve.
- The City continues to reduce its full time work force through attrition by employee retirement. The City was once again able to avoid any full-time layoffs by reducing the budget in each department, but employment levels are currently at a minimum level in all departments.
- We received a distribution of surplus funds from our liability insurance carrier of \$115,000. These amounts vary from year to year and this was significantly higher than the previous year's distribution.
- We continue to be very fortunate that our voters approved an uncapping of the Headlee reduced millage back to the level of our Charter allowed 15 mills. This allows us to maintain our service levels while also maintaining the cuts we made without having to tap into our fund balance for the 2013-2014 fiscal years.

Proprietary funds. The City of Clawson's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$2,038,431 and \$96,654 for the Senior Housing Fund. The total growth in net position for both funds was \$482,591 and \$5,463 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Clawson's business-type activities.

General Fund Budgetary Highlights

We began an energy efficiency program that will significantly decrease our energy costs for many years to come. Honeywell coordinated the project and agreed to a level of guaranteed savings that will save us energy monies in all of our buildings. We borrowed the money using Act 99 Financing and will pay back the money over a 15 year period. Most of that project will be shown in the 2013-2014 fiscal year budget. We had anticipated a slight deficit for the budget year and thanks to better than anticipated revenue amounts; we ended with a slight surplus. We were also able to continue with some capital purchasing projects in conjunction with the energy efficiency improvements at City Hall and at our Hunter Recreation Center. Our Police Department and Fire Department also upgraded with new equipment and police vehicle purchases.

Capital Asset and Debt Administration

Capital assets. The City of Clawson's investment in capital assets for its governmental and business type activities as of June 30, 2013, amounts to \$45,347,341 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, intangible assets and streets.

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

- City Hall Renovations \$2,659,819
- Sewer Improvements \$2,326,507 (SRF)

Long-term debt. At the end of the current fiscal year, the City of Clawson had total bonded debt outstanding of \$25,032,583, SRF revenue bonds of \$2,090,332, and \$1,170,178 of contracts payable. All of the City of Clawson's debt represents general obligation debt backed by the full faith and credit of the City of Clawson. Additional information on the City of Clawson's long-term debt can be found in note III. E. on pages 36-38 of this report.

Economic Factors and Next Year's Budgets and Rates

Things are finally starting to turn around in the housing market and the future is looking better for tax revenue. Although there is still going to be some negative impact with the loss of personal property tax revenue for businesses that own less than \$40,000 in business assets. We anticipate a balanced budget for 2013-2014 as a result of operations. We will use some of our capital designated reserve to continue to replace outdated equipment. We will also begin to pay back the debt for our energy efficiency project during the 2013-2014 fiscal budget year. Clawson has certainly completed a significant amount of improvement in a 7 year period to the roads and infrastructure within the City. We plan to continue the repair and replacement of old sewer and water lines through a maintenance program in our water and sewer fund. We will set aside money each year to continue upgrading our oldest areas of infrastructure. We plan to embark upon an asset management plan that will address all of our repairs to date and the remaining plan to repair and replace the infrastructure that needs to be upgraded. We anticipate that 2014-2015 will allow us to continue along the path of recovery for tax revenue and projects that need attention will be completed.

As we have become accustomed to, the voters passed a Headlee override for our rubbish fund that will allow us to continue to provide the curb side rubbish collection services that we have provided for over 30 years. Curb side leaf pick up is one of those services that will be saved due to this millage approval. I continue to believe much of the success of Clawson is the sense of pride in community that is demonstrated over and over again, even when the chips are down. Clawson is enriched with families who have been here for generations and a new group of homeowners to start their own family legacy in Clawson. Within our financial forecast, we were able to maintain the cuts that we had already made to wages and health benefits. We also continue to make changes to our health care plans that will make our health care costs sustainable into the future for both our active and retired employees.

Our union employees all agreed to new 5-year contracts prior to the end of our fiscal year. Some of our 30-year employees are saying this may be the first time that has ever happened in the history of the City. I credit all of our employees for working with administration to come to terms with our wages and health care and completing the contracts on time. We have all tightened our belts and continued to maintain the cuts that we made during the lean times we experienced over the past five years. We have reached a level of trust that makes our work environment a much happier place to be.

For the 2013-2014 fiscal year we were awarded a grant through MDOT that will allow us to make visiting Downtown Clawson a safer experience. Mid-block crossing islands and signalized traffic controls will be installed on 14 Mile Road to assist those walking or biking across our widest and busiest street in Clawson. This grant will contribute 65% of the project cost up to \$267,400. We are very pleased to have been successful with another grant award for this project. There are currently three crossings scheduled for our Downtown area on 14 Mile Road, but the final determination will be made after our engineering consultant completes the design for the islands.

It seems as though we have made it through the toughest financial times and are on our way to recovery thanks mostly to a wonderful and supportive community that truly is our motto, "The little City with a BIG heart."

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF CLAWSON
Statement of Net Position
June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Dev Authority
ASSETS				
Cash and Cash Equivalents	\$ 3,744,753	\$ 853,045	\$ 4,597,798	\$ 99,281
Investments	460,847	-	460,847	-
Receivables (net of Allowance for Uncollectible)	198,925	1,359,261	1,558,186	7,964
Due from Other Governmental Units	55,945	620,430	676,375	-
Due from Other Funds	5	-	5	-
Due from Primary Government	-	-	-	63,581
Advance to Component Unit	156,338	-	156,338	-
Prepaid Expenditures	38,276	1,964	40,240	-
Restricted Cash	-	677,154	677,154	-
Capital Assets (net of Accumulated Depreciation)	31,178,592	5,942,864	37,121,456	-
Intangible Assets (net of Accumulated Amortization)	-	8,225,885	8,225,885	-
Total Assets	<u>35,833,681</u>	<u>17,680,603</u>	<u>53,514,284</u>	<u>170,826</u>
LIABILITIES				
Accounts Payable	695,956	657,624	1,353,580	8,255
Accrued Liabilities	102,889	25,466	128,355	385
Due to Other Funds	-	-	-	-
Deposits	330,462	492	330,954	-
Due to Component Unit	63,581	-	63,581	-
Advance from Primary Government	-	-	-	156,338
Deferred Revenue	39,110	-	39,110	-
Noncurrent Liabilities:				
Other Post Employment Benefits (OPEB)	1,454,924	-	1,454,924	-
Compensated Absences	391,279	27,451	418,730	-
Due within One Year	1,070,118	660,966	1,731,084	-
Due in More than One Year	21,974,701	7,247,127	29,221,828	-
Total Liabilities	<u>26,123,020</u>	<u>8,619,126</u>	<u>34,742,146</u>	<u>164,978</u>
NET POSITION				
Net Investment in Capital Assets	8,133,773	6,415,656	14,549,429	-
Restricted – Capital Projects	984,843	-	984,843	-
Restricted – Special Revenue	524,608	-	524,608	-
Restricted – Debt Service	147,129	510,736	657,865	-
Unrestricted	(79,692)	2,135,085	2,055,393	5,848
Total Net Position	<u>\$ 9,710,661</u>	<u>\$ 9,061,477</u>	<u>\$ 18,772,138</u>	<u>\$ 5,848</u>

CITY OF CLAWSON
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,060,839	\$ 303,192	\$ 141,938	\$ 28,140
Public Safety	2,610,208	391,781	25,055	7,500
Public Works	2,127,079	133,512	679,349	215,515
Sanitation	851,118	21,232	-	-
Health and Welfare	219,262	-	-	-
Recreation and Cultural	1,008,145	202,285	-	38,628
Interest on Long-Term Debt	746,921	-	-	-
Total Governmental Activities	10,623,572	1,052,002	846,342	289,783
Business-type Activities:				
Water and Sewer	4,418,929	4,182,503	-	-
Senior Citizen Housing	45,480	80,845	-	-
Total Business-type Activities	4,464,409	4,263,348	-	-
Total Primary Government	\$ 15,087,981	\$ 5,315,350	\$ 846,342	\$ 289,783
Component Unit:				
Downtown Development Authority	\$ 124,051	\$ 9,377	\$ -	\$ -

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

Change in Net Position
Net Position – Beginning

Net Position – Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (2,587,569)	\$ -	\$ (2,587,569)	\$ -
(2,185,872)	-	(2,185,872)	-
(1,098,703)	-	(1,098,703)	-
(829,886)	-	(829,886)	-
(219,262)	-	(219,262)	-
(767,232)	-	(767,232)	-
(746,921)	-	(746,921)	-
<u>(8,435,445)</u>	<u>-</u>	<u>(8,435,445)</u>	<u>-</u>
-	(236,426)	(236,426)	-
-	35,365	35,365	-
<u>-</u>	<u>(201,061)</u>	<u>(201,061)</u>	<u>-</u>
<u>(8,435,445)</u>	<u>(201,061)</u>	<u>(8,636,506)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(114,674)</u>
7,304,624	716,692	8,021,316	118,692
992,757	-	992,757	-
196,273	-	196,273	-
34,630	2,423	37,053	164
30,000	(30,000)	-	-
<u>8,558,284</u>	<u>689,115</u>	<u>9,247,399</u>	<u>118,856</u>
122,839	488,054	610,893	4,182
<u>9,587,822</u>	<u>8,573,423</u>	<u>18,161,245</u>	<u>1,666</u>
<u>\$ 9,710,661</u>	<u>\$ 9,061,477</u>	<u>\$ 18,772,138</u>	<u>\$ 5,848</u>

CITY OF CLAWSON
Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>	<u>G.O. Bond Debt Fund</u>	<u>2010 Capital Impr. Capital Project</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,725,321	\$ 77,437	\$ 862,643	\$ 1,002,854	\$ 3,668,255
Investments	460,847	\$ -	\$ -	\$ -	\$ 460,847
Receivables (net of Allowance for Uncollectible)	198,925	-	-	-	198,925
Due from Other Governmental Units	-	-	-	55,945	55,945
Due from Other Funds	28,980	47,406	-	6,377	82,763
Advance to Component Unit	156,338	-	-	-	156,338
Prepaid Expenditures	17,892	-	-	18,979	36,871
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>2,588,303</u>	\$ <u>124,843</u>	\$ <u>862,643</u>	\$ <u>1,084,155</u>	\$ <u>4,659,944</u>

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts Payable	\$ 387,131	\$ -	\$ 190,163	\$ 107,487	\$ 684,781
Deposits	330,462	-	-	-	330,462
Accrued and Other Liabilities	88,690	-	-	10,460	99,150
Due to Other Funds	53,783	-	28,975	-	82,758
Due to Component Units	3,581	-	-	60,000	63,581
Deferred Revenue	39,110	-	-	-	39,110
	<u>902,757</u>	<u>-</u>	<u>219,138</u>	<u>177,947</u>	<u>1,299,842</u>

Fund Balance:

Non Spendable:

Prepaid and Other	188,370	-	-	18,979	207,349
Long-Term Advances	156,338	-	-	-	156,338

Restricted:

Debt Service	-	124,843	-	22,286	147,129
Capital Projects	1,003	-	643,505	340,335	984,843
Drug Law Enforcement	5,850	-	-	-	5,850
Special Revenue Funds	-	-	-	524,608	524,608
Assigned	310,000	-	-	-	310,000
Unassigned	1,023,985	-	-	-	1,023,985
	<u>1,685,546</u>	<u>124,843</u>	<u>643,505</u>	<u>906,208</u>	<u>3,360,102</u>

Total Liabilities and Fund Balance \$ 2,588,303 \$ 124,843 \$ 862,643 \$ 1,084,155

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

Capital Assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	30,679,423
Other postemployment benefit obligations are not reported in the funds.	(1,454,924)
Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	541,201
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonded Debt	(23,044,819)
Compensated Absences	(370,322)
	<u>\$ 9,710,661</u>

CITY OF CLAWSON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General	G.O. Bond Debt Fund	2010 Capital Impr. Capital Project	Other Governm. Funds	Total Governm. Funds
Revenues					
Property Taxes	\$ 4,476,768	\$ 1,370,661	\$ -	\$ 1,243,938	\$ 7,091,367
Property Tax Administration Fee	172,631	-	-	-	172,631
Penalties and Interest	40,626	-	-	-	40,626
Licenses and Permits	170,173	-	-	-	170,173
Intergovernmental:					
Federal, State and Local	1,144,600	-	-	689,977	1,834,577
Charges for Services	190,219	-	-	-	190,219
Fines and Forfeitures	184,320	-	-	-	184,320
Franchise Fees	196,273	-	-	-	196,273
Interest	30,618	393	1,947	1,557	34,515
Other	408,039	-	76,852	316,704	801,595
Total Revenues	<u>7,014,267</u>	<u>1,371,054</u>	<u>78,799</u>	<u>2,252,176</u>	<u>10,716,296</u>
Expenditures					
Current:					
General Government	1,074,827	-	-	-	1,074,827
Public Safety	2,539,815	-	-	-	2,539,815
Public Works	621,815	-	-	671,301	1,293,116
Sanitation	-	-	-	738,122	738,122
Health and Welfare	219,262	-	-	-	219,262
Recreation and Cultural	539,166	-	-	468,979	1,008,145
Other Functions	1,465,107	-	-	-	1,465,107
Debt Service:					
Principal	-	665,000	-	135,000	800,000
Interest and Other Charges	-	704,095	-	42,826	746,921
Capital Outlay	3,109,644	-	495,949	81,436	3,687,029
Total Expenditures	<u>9,569,636</u>	<u>1,369,095</u>	<u>495,949</u>	<u>2,137,664</u>	<u>13,572,344</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,555,369)</u>	<u>1,959</u>	<u>(417,150)</u>	<u>114,512</u>	<u>(2,856,048)</u>
Other Financing Sources (Uses)					
Transfers In	30,000	-	-	120,000	150,000
Transfers Out	(55,000)	-	-	(65,000)	(120,000)
Transfer to Component Unit	-	-	-	(60,000)	(60,000)
Proceeds of Long Term Debt	2,659,819	-	-	-	2,659,819
Total Other Financing Sources (Uses)	<u>2,634,819</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>2,629,819</u>
Net Change in Fund Balance	79,450	1,959	(417,150)	109,512	(226,229)
Fund Balance – Beginning	<u>1,606,096</u>	<u>122,884</u>	<u>1,060,655</u>	<u>796,696</u>	<u>3,586,331</u>
Fund Balance – Ending	<u>\$ 1,685,546</u>	<u>\$ 124,843</u>	<u>\$ 643,505</u>	<u>\$ 906,208</u>	<u>\$ 3,360,102</u>

CITY OF CLAWSON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balance - total governmental funds \$ (226,229)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period:

Capital Outlay Expenditures	\$	3,687,029	
Depreciation Expense		<u>(928,287)</u>	2,758,742

The net increase in other post employment benefit obligations (OPEB) does not require current resources and are not included in governmental funds. (506,409)

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

Principal Payments on Long Term Bonds	\$	800,000	
Principal Payments on Long Term Bonds-D.D.A.		60,000	
Proceeds of Long Term Debt		(2,659,819)	
Decrease in Compensated Absences		<u>19,394</u>	(1,780,425)

Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue(loss) of certain activities of internal service funds is reported with governmental activities. (122,840)

Change in net position in governmental activities \$ 122,839

CITY OF CLAWSON
Balance Sheet
Proprietary Funds
June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 765,246	\$ 87,799	\$ 853,045	\$ 76,498
Due from Other Funds	-	-	-	-
Due from Other Governmental Units	620,430	-	620,430	-
Accounts Receivable	1,349,511	9,750	1,359,261	-
Prepaid Expenses	1,964	-	1,964	1,405
Total Current Assets	<u>2,737,151</u>	<u>97,549</u>	<u>2,834,700</u>	<u>77,903</u>
Non Current Assets:				
Restricted Cash and Cash Equivalents				
Revenue Bond Covenant Accounts	676,105	-	676,105	-
Construction Cash Accounts	1,049	-	1,049	-
Total Restricted Assets	<u>677,154</u>	<u>-</u>	<u>677,154</u>	<u>-</u>
Property, Plant and Equipment:				
Land	-	54,028	54,028	-
Land Improvements	-	59,512	59,512	-
Buildings	52,932	438,399	491,331	-
Infrastructure	9,947,817	-	9,947,817	-
Machinery and Equipment	182,171	64,666	246,837	2,001,278
Accumulated Depreciation	(4,546,172)	(310,489)	(4,856,661)	(1,502,109)
Net Property, Plant and Equipment	<u>5,636,748</u>	<u>306,116</u>	<u>5,942,864</u>	<u>499,169</u>
Intangible Assets (net of Accumulated Amortization)	8,225,885	-	8,225,885	-
Total Assets	<u>\$ 17,276,938</u>	<u>\$ 403,665</u>	<u>\$ 17,680,603</u>	<u>\$ 577,072</u>
LIABILITIES AND NET POSITION				
Current Liabilities:				
Accounts Payable	\$ 657,221	\$ 403	\$ 657,624	\$ 11,175
Accrued Liabilities	14,048	-	14,048	3,739
Due to Other Funds	-	-	-	-
Deposits	-	492	492	-
Contracts Payable	135,512	-	135,512	-
Bonds Payable	370,454	-	370,454	-
Total Current Liabilities	<u>1,177,235</u>	<u>895</u>	<u>1,178,130</u>	<u>14,914</u>
Current Liabilities Payable from Restricted Assets:				
Revenue Bonds Payable	155,000	-	155,000	-
Accrued Interest Payable	11,418	-	11,418	-
Total Current Liabilities Payable from Restricted Assets	<u>166,418</u>	<u>-</u>	<u>166,418</u>	<u>-</u>
Long-Term Liabilities:				
Compensated Absences Payable	27,451	-	27,451	20,957
Contracts Payable	1,034,666	-	1,034,666	-
Revenue Bonds payable	1,935,332	-	1,935,332	-
Bonds Payable	4,277,129	-	4,277,129	-
Total Long-Term Liabilities	<u>7,274,578</u>	<u>-</u>	<u>7,274,578</u>	<u>20,957</u>
Net Position:				
Net Investment in Capital Assets	6,109,540	306,116	6,415,656	499,169
Restricted for Debt Service and Construction	510,736	-	510,736	-
Unrestricted	2,038,431	96,654	2,135,085	42,032
Total Net Position	<u>8,658,707</u>	<u>402,770</u>	<u>9,061,477</u>	<u>541,201</u>
Total Liabilities and Net Position	<u>\$ 17,276,938</u>	<u>\$ 403,665</u>	<u>\$ 17,680,603</u>	<u>\$ 577,072</u>

CITY OF CLAWSON
Statement of Revenues, Expenses and Changes in Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
<u>Operating Revenues:</u>				
Water Charges for Services	\$ 1,224,429	\$ -	\$ 1,224,429	\$ -
Water Treatment Charges for Services	2,958,074	-	2,958,074	-
Rental Income	-	79,860	79,860	310,535
Intergovernmental	-	-	-	-
Miscellaneous	-	985	985	10,000
Total Operating Revenues	<u>4,182,503</u>	<u>80,845</u>	<u>4,263,348</u>	<u>320,535</u>
<u>Operating Expenses:</u>				
Water Department	1,086,434	-	1,086,434	-
Sewer Department	2,842,306	-	2,842,306	-
Senior Citizens Housing	-	32,375	32,375	-
Motor Pool	-	-	-	350,442
Depreciation and Amortization	316,144	13,105	329,249	93,048
Total Operating Expenses	<u>4,244,884</u>	<u>45,480</u>	<u>4,290,364</u>	<u>443,490</u>
Operating Income (Loss)	<u>(62,381)</u>	<u>35,365</u>	<u>(27,016)</u>	<u>(122,955)</u>
<u>Non-Operating Revenues (Expenses):</u>				
Interest Earned	2,325	98	2,423	115
Property Taxes Levied for Debt Service	716,692	-	716,692	-
Interest Expense	(174,045)	-	(174,045)	-
Total Non-Operating Revenues (Expenses)	<u>544,972</u>	<u>98</u>	<u>545,070</u>	<u>115</u>
Income (Loss) before Operating Transfers	482,591	35,463	518,054	(122,840)
<u>Operating Transfers:</u>				
Operating Transfers Out	-	(30,000)	(30,000)	-
Net Income (Loss)	482,591	5,463	488,054	(122,840)
Net Position – Beginning	<u>8,176,116</u>	<u>397,307</u>	<u>8,573,423</u>	<u>664,041</u>
Net Position – Ending	<u>\$ 8,658,707</u>	<u>\$ 402,770</u>	<u>\$ 9,061,477</u>	<u>\$ 541,201</u>

CITY OF CLAWSON
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-type Activities – Enterprise Funds</u>			<u>Governmental Activities – Internal Service Fund</u>
	<u>Water & Sewer</u>	<u>Other Nonmajor Senior Citizens Housing</u>	<u>Total</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from Customers and Users	\$ 4,182,613	\$ 71,675	\$ 4,254,288	\$ 320,535
Payments to Suppliers	(2,980,550)	(34,509)	(3,015,059)	(185,804)
Payments to Employees	(677,134)		(677,134)	(157,934)
Net Cash Provided (Used) by Operating Activities	<u>524,929</u>	<u>37,166</u>	<u>562,095</u>	<u>(23,203)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Property Taxes Levied for Debt Service	716,692	-	716,692	-
Transfer to Other Funds	-	(30,000)	(30,000)	-
Net Cash Provided by (Used) Non-Capital Financing Activities	<u>716,692</u>	<u>(30,000)</u>	<u>686,692</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Purchases of Capital Assets	(2,326,507)	(13,106)	(2,339,613)	(162,005)
Principal Paid on Capital Debt	(491,701)	-	(491,701)	-
Proceeds of Long Term Borrowing	1,469,902	-	1,469,902	-
Interest Paid on Capital Debt	(174,045)	-	(174,045)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,522,351)</u>	<u>(13,106)</u>	<u>(1,535,457)</u>	<u>(162,005)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Earned	2,325	98	2,423	115
Net Increase (Decrease) in Cash and Cash Equivalents	(278,405)	(5,842)	(284,247)	(185,093)
Cash and Cash Equivalents – Beginning	1,720,805	93,641	1,814,446	261,591
Cash and Cash Equivalents – Ending	<u>\$ 1,442,400</u>	<u>\$ 87,799</u>	<u>\$ 1,530,199</u>	<u>\$ 76,498</u>
Presented as:				
Unrestricted Cash	\$ 765,246	\$ 87,799	\$ 853,045	\$ 76,498
Restricted Cash	677,154	-	677,154	-
	<u>\$ 1,442,400</u>	<u>\$ 87,799</u>	<u>\$ 1,530,199</u>	<u>\$ 76,498</u>
Note: Bond Proceeds were calculated by the SRF draws actually received during the fiscal year.				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ (62,381)	\$ 35,365	\$ (27,016)	\$ (122,955)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	316,144	13,105	329,249	93,048
(Increase) Decrease in Receivables	110	(9,170)	(9,060)	-
(Increase) Decrease in Prepaids	4,310	-	4,310	1,102
Increase (Decrease) in Accounts Payable	251,796	(1,309)	250,487	1,262
Increase (Decrease) in Accrued Liabilities	16,380	(1,140)	15,240	4,340
Increase (Decrease) in Deposits	(1,430)	315	(1,115)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 524,929</u>	<u>\$ 37,166</u>	<u>\$ 562,095</u>	<u>\$ (23,203)</u>

CITY OF CLAWSON
Statement of Net Position
Fiduciary Funds
June 30, 2013

<u>ASSETS</u>	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>	<u>Agency Funds</u>
Cash	\$ 305,263	\$ -	\$ 1,891
Investments, at Fair Value:			
Bonds and Notes	-	1,086,343	-
Common Stock	-	2,172,828	-
Total Investments	<u>-</u>	<u>3,259,171</u>	<u>-</u>
Total Assets	<u>305,263</u>	<u>3,259,171</u>	<u>1,891</u>
 <u>LIABILITIES</u>			
Due to Other Funds	-	-	5
Due to Other	-	-	1,886
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,891</u>
 Net Assets Held in Trust For Employees' Retirement Benefits	 <u>\$ 305,263</u>	 <u>\$ 3,259,171</u>	 <u>\$ -</u>

CITY OF CLAWSON
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>
<u>ADDITIONS</u>		
Investment Income:		
Earnings on Investments	\$ 62	\$ 196
Net Appreciation (Depreciation) in Fair Value of Investments	-	385,818
Contributions:		
Employer	<u>47,400</u>	<u>60,000</u>
Total Additions	<u>47,462</u>	<u>446,014</u>
 <u>DEDUCTIONS</u>		
Benefits Paid	60,912	128,807
Administrative Costs	-	39,107
Total Deductions	<u>60,912</u>	<u>167,914</u>
 Net Increase (Decrease)	 (13,450)	 278,100
 Net Assets Held in Trust For Employee's Retirement Benefits:		
Net Position – Beginning	<u>318,713</u>	<u>2,981,071</u>
Net Position– Ending	<u>\$ 305,263</u>	<u>\$ 3,259,171</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

Discretely Presented Component Unit

Downtown Development Authority

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

B. Government-Wide and Fund Financial Statements

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

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

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

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

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Governmental Funds – Continued

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

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

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

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

Proprietary Funds

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

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

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fiduciary Funds

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

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

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

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

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

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

Estimates

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are considered 'non spendable' allocation of fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2013.

3. Inventory

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

4. Capital Assets

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

4. Capital Assets – Continued

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

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

5. Compensated Absences

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

6. Long-Term Obligations

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

6. Long-Term Obligations – Continued

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

7. Fund Balance

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

- Non-Spendable – Amounts classified as “non-spendable” include balances in prepaid insurance and retention (\$207,349), which are deemed “non-spendable,” as they cannot be liquidated to spend in the following year, and the long term advance to the DDA (\$156,338).
- Restricted – Equity in Special Revenue Funds (spendable), Capital Projects and Debt Service Funds are restricted to those activities by State law or by resolutions of City Council.
- Committed Fund Balances – Amounts that have been formally set aside by City Council for use for a specific purpose. Commitments are made by resolution of the City Council.
- Assigned Fund balances are developed by City Administration and are generally reviewed and approved by City Council. Expenditures are first applied to “assigned” then to “unassigned” balances.

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

7. Fund Balance – Continued

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

General Fund

Non-Spendable:

Prepaid Insurance & L.T. Advance \$ 344,708

Restricted:

Drug Law Enforcement/Capital 6,853

Assigned:

Capital Improvements 235,000

Leave Buy Outs 75,000

310,000

Unassigned 1,023,985

Total \$ 1,685,546

Special Revenue Funds

Non-Spendable:

Prepaid Insurance/Insurance \$ 18,979

Restricted to Specific

Purposes 524,608

Total \$ 543,587

Debt Service Funds

Restricted to Debt

Service \$ 147,129

Capital Project Funds

Restricted to Capital

Projects \$ 983,840

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

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

1. The City Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2013 several budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

Excess of Expenditures over Appropriations in Budgetary Funds

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

<u>General Fund</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Excess Expenditures Over <u>Appropriations</u>
Capital Outlay	\$379,975	\$3,109,644	\$2,729,669

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

C. Public Act 245 of 1999 Compliance

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

The cumulative amounts as of June 30, 2013 are as follows:

Cumulative Balance at June 30, 2012	\$(1,722,750)
Fees Collected in Fiscal Year 2013	117,433
Expenditures in Fiscal Year 2013	<u>(249,902)</u>
Revenues Over (Under) Expenditures	<u><u>\$ (1,855,219)</u></u>

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

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

Custodial Credit Risk. In the event of a bank failure, the City's deposits may not be recovered. The City's investment policy requires the Finance Director to consider custodial credit risk by utilizing F.D.I.C. insurance coverage and collateralization of deposits. As of June 30, 2013, the City's book balance of its deposits was \$5,580,677; the total book balance was \$5,582,106, due to \$1,429 in cash on hand. The bank balance was \$5,643,621 which was exposed to custodial credit risk as follows:

	<u>Bank</u>
	<u>Balance</u>
Insured by F.D.I.C.	\$ 1,266,890
Collateralized in the City's Name	3,825,981
Uninsured and Uncollateralized	<u>550,750</u>
Total	<u><u>\$ 5,643,621</u></u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

A reconciliation of cash for the primary government follows:

Statement of Net Position:

Cash and Cash Equivalents	\$ 4,597,798
Restricted Cash	677,154
Fiduciary Funds:	
V.E.B.A. Trust	305,263
Agency Funds	<u>1,891</u>
Total	<u>\$ 5,582,106</u>

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Collateralized in DDA's Name</u>
Downtown Development Authority	<u>\$99,281</u>	<u>\$99,531</u>	<u>\$99,531</u>

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

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Primary Government:		
Cash and Cash Equivalents:		
Certificates of Deposit	\$ 867,019	1.91 Years
Savings and Checking Accounts	4,231,702	Demand
Money Market	<u>544,900</u>	Demand
	<u>\$ 5,643,621</u>	
Investments:		
Government Agency Notes	<u>\$ 460,847</u>	7.2 years
Trust Funds:		
Mutual Fund – Bonds	\$ 1,086,343	Not Available
Mutual Funds – Equity	<u>2,172,828</u>	N/A
	<u>\$ 3,259,171</u>	
Component Unit:		
Checking	<u>\$ 99,531</u>	Demand

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

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

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government:			
Cash and Cash Equivalents			
Cash and Certificates of Deposits	\$ 5,098,721	N/A	N/A
Money Market	<u>544,900</u>	Not Rated	
	<u>\$ 5,643,621</u>		
Investments:			
Government Agency Notes	<u>\$ 460,847</u>	AA+	S&P
Trust Fund:			
Mutual Fund – Bonds	\$ 1,086,343	Not Rated	
Mutual Funds – Equity	<u>2,172,828</u>	N/A	N/A
	<u>\$ 3,259,171</u>		
Component Unit:			
Checking	<u>\$ 99,531</u>	N/A	N/A

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

Primary Government:	
Government Agency Notes	100%
Trust Fund:	
Fixed Income:	
U.S. Treasury	8.9%
Federal Home Loan Mtg	5.0%
JP Mortgage Backed Securities	14.53%
Equities:	
Comerica Medium CAP Index FD	5.87%
Comerica Small Cap Index FD	6.5%
Comerica S&P Index FD	16.7%
Component Units:	None

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not Depreciated:				
Land	\$ 702,419	\$ 4,324	\$ -	\$ 706,743
Capital Assets, being Depreciated:				
Building and Improvements	7,388,144	3,018,715	-	10,406,859
Machinery and Equipment	858,330	96,773	-	955,103
Vehicles	1,762,933	71,268	-	1,834,201
Infrastructure	25,156,274	495,949		25,652,223
Internal Service Fund	1,941,772	162,005	(102,499)	2,001,278
	<u>37,107,453</u>	<u>3,844,710</u>	<u>(102,499)</u>	<u>40,849,664</u>
Less: Accumulated Depreciation:				
Building and Improvements	(4,049,215)	(159,538)	-	(4,208,753)
Machinery and Equipment	(585,368)	(43,782)	-	(629,150)
Vehicles	(1,298,743)	(42,328)	-	(1,341,071)
Infrastructure	(2,014,093)	(682,639)	-	(2,696,732)
Internal Service Fund	(1,511,560)	(93,048)	102,499	(1,502,109)
	<u>(9,458,979)</u>	<u>(1,021,335)</u>	<u>102,499</u>	<u>(10,377,815)</u>
Governmental Activities Capital Assets, net	<u>\$ 28,350,893</u>	<u>\$ 2,827,699</u>	<u>\$ -</u>	<u>\$ 31,178,592</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Asset - Continued

<u>Business-type Activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital Assets, not Depreciated:				
Land	\$ 54,028	\$ -	\$ -	\$ 54,028
Capital Assets, being Depreciated:				
Senior Citizens Housing:				
Land Improvements	59,512	-	-	59,512
Buildings-Senior Citizens	427,734	10,665	-	438,399
Equipment-Senior Citizens	62,225	2,441	-	64,666
	<u>549,471</u>	<u>13,106</u>	<u>-</u>	<u>562,577</u>
Water & Sewer Fund:				
Buildings-Water Sewer	52,932	-	-	52,932
Infrastructure	7,621,310	2,326,507	-	9,947,817
Equipment	182,171	-	-	182,171
	<u>7,856,413</u>	<u>2,326,507</u>	<u>-</u>	<u>10,182,920</u>
Less: Accumulated Depreciation:				
Senior Citizens Housing:				
Land Improvements	(35,293)	(1,623)	-	(36,916)
Buildings-Senior Citizens	(202,613)	(10,995)	-	(213,608)
Equipment-Senior Citizens	(59,478)	(487)	-	(59,965)
	<u>(297,384)</u>	<u>(13,105)</u>	<u>-</u>	<u>(310,489)</u>
Water & Sewer Fund:				
Buildings-Water Sewer	(47,814)	(129)	-	(47,943)
Infrastructure	(4,271,149)	(68,129)	-	(4,339,278)
Equipment	(155,467)	(3,484)	-	(158,951)
	<u>(4,474,430)</u>	<u>(71,742)</u>	<u>-</u>	<u>(4,546,172)</u>
Business Activities				
Capital Assets, net	<u>\$ 3,688,098</u>	<u>\$ 2,254,766</u>	<u>\$ -</u>	<u>\$ 5,942,864</u>
Intangible Assets (Amortized over 40 years)				
Investment in Community:				
Sanitary/Storm Sewers:				
Cost	\$ 10,292,223	\$ -	\$ -	\$ 10,292,223
Accumulated Amortization	(1,821,936)	(244,402)	-	(2,066,338)
Intangible Assets, net	<u>\$ 8,470,287</u>	<u>\$ (244,402)</u>	<u>\$ -</u>	<u>\$ 8,225,885</u>
Depreciation expense was charged to functions of the primary government as follows:				
General Government	\$ 33,890			
Public Safety	70,393			
Public Works	711,008			
Recreation and Culture	112,996			
Charged though Internal Service Funds	93,048			
	<u>\$ 1,021,335</u>			
Business Type Activities:				
Water and Sewer	\$ 71,742			
Senior Citizen Housing	13,105			
Subtotal	<u>84,847</u>			
Amortization of Intangible	244,402			
Total per Financial Statement	<u>\$ 329,249</u>			

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2013 are as follows:

<u>Receivable Fund</u>	<u>Payble Fund</u>	<u>Amount</u>
General Fund	2010 Capital Projects	\$ 28,975
	Trust & Agency	5
		<u>28,980</u>
G.O. Bond Debt Fund	General Fund	47,406
Library Debt Fund	General Fund	6,377
		<u>\$ 82,763</u>

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Senior Citizen Housing Fund	\$ 30,000
Refuse Collection	General Fund	55,000
Local Street Fund	Major Street Fund	65,000
Total		<u>\$ 150,000</u>

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

Transfers represent the following:

Senior Citizens Housing Transfer – amount budgeted by City Council.

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

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

D. Intangible Assets

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

North Arm Relief Drain	\$ 2,718,357
George W. Kuhn Drain	<u>7,573,866</u>
Total	10,292,223
Less: Accumulated Amortization	<u>(2,066,338)</u>
Net Intangible Assets	<u>\$ 8,225,885</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Balance</u> <u>Within 1 Year</u>
Gov. Activities:					
G.O. Bonds	\$ 21,245,000	\$ -	\$ 860,000	\$ 20,385,000	\$ 925,000
Act 99 Installment	-	2,659,819	-	2,659,819	145,118
	<u>21,245,000</u>	<u>2,659,819</u>	<u>860,000</u>	<u>23,044,819</u>	<u>1,070,118</u>
Compensated Absences	407,363	-	16,084	391,279	-
	<u>\$ 21,652,363</u>	<u>\$ 2,659,819</u>	<u>\$ 876,084</u>	<u>\$ 23,436,098</u>	<u>\$ 1,070,118</u>
Business Type Activities:					
G.O. Bonds	\$ 5,006,595	\$ -	\$ 359,012	\$ 4,647,583	\$ 370,454
SRF Revenue Bonds	-	2,090,332	-	2,090,332	155,000
Contract Debt	1,302,867	-	132,689	1,170,178	135,512
	<u>6,309,462</u>	<u>2,090,332</u>	<u>491,701</u>	<u>7,908,093</u>	<u>660,966</u>
Compensated Absences	29,377	-	1,926	27,451	-
	<u>\$ 6,338,839</u>	<u>\$ 2,090,332</u>	<u>\$ 493,627</u>	<u>\$ 7,935,544</u>	<u>\$ 660,966</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2013:

	<u>Number of</u> <u>Issues</u>	<u>Interest</u> <u>Rate</u>	<u>Maturing</u> <u>Through</u>	<u>Principal</u> <u>Outstanding</u>
Governmental Activities:				
General Obligation Bonds	2	3.50%-3.90%	2026	\$ 20,385,000
Act 99 Installment Loan	1	2.80%	2028	2,659,819
Total Governmental Activities				<u>\$ 23,044,819</u>
Business Type Activities:				
G.O. Bonds	7	4.375-4.70%	2029	\$ 4,647,583
SRF Revenue Bonds	1	2.50%	2033	3,925,000
Less SRF Not Yet Drawn Down				(1,834,668)
Contract Debt	1	2.00%-5.00%	2022	1,170,178
Total Business Type Activities				<u>\$ 7,908,093</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2013 are as follows (net of interest subsidies discussed below):

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,070,118	\$ 834,167	\$ 660,966	\$ 215,345
2015	1,144,182	801,020	679,232	227,434
2016	1,233,359	764,448	692,052	209,978
2017	1,272,653	723,884	711,750	192,138
2018	1,322,067	680,487	729,930	173,786
2019-2023	6,760,998	2,687,289	3,504,083	583,495
2024-2028	7,646,442	1,413,217	1,561,699	236,310
2029-2030	2,595,000	160,953	1,203,048	89,375
	<u>\$ 23,044,819</u>	<u>\$ 8,065,462</u>	<u>\$ 9,742,761</u>	<u>\$ 1,927,860</u>

Note: The above schedule for 'Business Activity' shows the future bond and interest payments due on *scheduled* debt activity. The SRF Revenue Bonds are in process of draw down from the State of Michigan. At the end of the City's fiscal year only \$2,090,332 of the authorized amount (\$3,925,000) were drawn down. The total above (\$9,742,761) reflects the total amount authorized by the State, while the schedule on the preceding page reflects the amounts actually and drawn down.

Interest Subsidies

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

If the IRS rules that the City did not comply with the requirements of these code sections or the law is changed, the City would be responsible to pay all of the interest due on the obligations. During the fiscal year, the City received the interest subsidies as scheduled; however, the City has been informed by its financial advisor that the subsidies for the fiscal year ending June 30, 2014 will be reduced due to 'sequestration' automatic budget reductions, which went into effect at the beginning of January, 2013. It appears that future subsidies will be reduced due to future federal budget cuts.

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

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

	<u>Principal Due</u>	<u>Interest Due</u>	<u>Federal Subsidy</u>	<u>Net Due</u>
Capital Improvement Series 2010				
2014	\$ 60,000	\$ 67,640	\$ 30,438	\$ 37,202
2015	60,000	65,840	29,628	36,212
2016	65,000	63,740	28,683	35,057
2017	65,000	61,140	27,513	33,627
2018	65,000	58,215	26,197	32,018
2019-2023	360,000	238,940	107,523	131,417
2024--2028	420,000	132,830	59,774	73,057
2029-2030	185,000	9,394	4,227	5,167
	<u>\$ 1,280,000</u>	<u>\$ 697,739</u>	<u>\$ 313,983</u>	<u>\$ 383,756</u>
2010 Unlimited General Obligation				
2014	\$ 165,000	\$ 328,362	\$ 114,927	\$ 213,435
2015	165,000	323,000	113,050	209,950
2016	165,000	316,977	110,942	206,035
2017	165,000	309,800	108,430	201,370
2018	175,000	301,880	105,658	196,222
2019-2023	975,000	1,363,007	477,052	885,955
2024--2028	1,295,000	1,045,297	365,854	679,443
2029-2030	2,410,000	233,167	81,608	151,559
	<u>\$ 5,515,000</u>	<u>\$ 4,221,490</u>	<u>\$ 1,477,522</u>	<u>\$ 2,743,969</u>

F. Long-Term Component Unit Advances

At June 30, 2013, the General Fund has an advance to the Downtown Development Authority in the amount of \$156,338. The advance is being repaid over the next 5 years with fixed rate of interest (1.72%), and scheduled principal repayments.

G. Property Taxes

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

III. DETAILED NOTES ON ALL FUNDS – Continued

G. Property Taxes – Continued

The maximum authorized operating levy for the City is 15 mills. The City's tax levy for the 2012 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	10.7602
Refuse	2.1518
Library	1.3240
Voted Debt	7.4100
Voted Operating	<u>4.2398</u>
Total	<u>25.8858</u> mills

IV. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City hired before July 1999, except for employees that had opted out of the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2012.

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2011 as follows:

General – Union	*
General Non – Union	*
Police	*

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

c. Annual Pension Cost

During the fiscal year ended June 30, 2013, the City's contributions totaling \$1,109,388 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2011.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The remaining unfunded liability for "closed plans" will be amortized over 20 years commencing with fiscal year beginning July 1, 2013. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Trend Information</u>				
Fiscal Year Ended <u>June 30,</u>	Valuation Date <u>Dec. 31</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2011	2009	1,013,448	100%	-0-
2012	2010	1,018,356	100%	-0-
2013	2011	1,109,388	100%	-0-

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost – Continued

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

2. Clawson Fire Department Defined Benefit Plan

a. Plan Description

The Clawson Fire Department maintains and administers a single-employer defined benefit pension plan to provide pension benefits for the paid on call firemen. The Clawson Fire Department Defined Benefit Plan (the Plan) is considered part of the City of Clawson financial reporting entity and is included in the City's financial reports as a Pension Trust Fund. At June 30, 2013, twenty eight paid on call firemen were covered by the Plan. Currently, there are ten members receiving benefits.

The authority to establish or amend the plan benefits rests with the City Council. The Plan presently provides retirement as well as death benefits. Pension benefits vest after five years of total service, for employees hired before July 1, 2009, and ten years for all others. Employees who retire at age 55 are entitled to a monthly pension payable for life in an amount equal to \$45.00 multiplied by the years of service. Death benefits are based on the present value of accrued benefits per participant and are provided regardless of years of service. The City makes annual contributions to the Plan equal to the amount determined by an actuary. Employee contributions are not allowed. The Plan agreement does not allow post retirement benefit increases.

b. Summary of Significant Accounting Policies and Plan Asset Matters

The Plan's financial statements are prepared on the accrual basis of accounting. Contributions from the City are recognized as revenue in the period in which employees provide services to the City. Contributions include payments by the City for Plan insurance premiums, administrative costs and recommended contributions based upon actuarial determinations. Investment income is recognized as earned by the Plan. The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as an increase (decrease) of investment income based on the valuation of investments as of the date of the balance sheet. Benefits and refunds are expensed when paid.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

b. Summary of Significant Accounting Policies and Plan Asset Matters – Continued

Investments consisting of mutual funds are held in a brokerage trust account in the name of the Clawson Fire Department Employee Pension Plan. The investments are reported at fair value. Securities traded on a national or international exchange are valued at the latest market price as of the period end. There are no investments in, loans to, or leases with parties related to the Plan.

c. Funding Progress and Annual Required Contributions

As of June 30, 2011 the actuarial accrued liability (AAL) was \$72,068 greater than the actuarial value of assets. Plan amendments adopted during 2000 by the Clawson City Council included: the plan's death benefit was changed from 100 times monthly benefit to the present value of the participant's accrued monthly benefit, and the monthly benefit accrual level was increased.

d. Contributions Required and Contributions Made

The City Council retains the authority to establish or amend the City's obligation to contribute to the plan. The City's policy is to annually fund plan contributions to cover administrative costs and the actuarial recommended contribution. The recommended contributions are determined on an actuarial basis using the modified aggregate actuarial cost method. Under this method, the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation, over the actuarial value of assets is allocated on a level basis over the service of the group between the valuation date and the assumed exit. This allocation is performed for the group as a whole. That portion of the actuarial present value allocated to a valuation year is called the normal cost. Under this method, the actuarial gains (losses), as they occur, reduce (increase) future normal costs.

Total contributions to the Plan for the year ended June 30, 2013 amounted to \$60,000 which covered actuarial recommended contribution and administrative costs, and was based on an actuarial valuation as of July 1, 2011 determined as described above.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

e. Long-Term Contracts and Reserves

There are no long-term contracts for contributions. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits.

Schedule of Employer Contributions

<u>Fiscal Year</u> Ended <u>June 30</u>	<u>Valuation</u> Date <u>June 30</u>	<u>Annual</u> Pension Cost (APC)	<u>Percentage</u> of APC <u>Contributed</u>	<u>Net</u> Pension <u>Obligation</u>
2011	2008	175,560	100%	-0-
2012	2008	188,000	100%	-0-
2013	2011	60,000	100%	-0-

3. City of Clawson Employees Defined Contribution Plan

a. Plan Description

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

b. Contributions Required and Contributions Made

The City is required to contribute an amount equal to 10% of the employee's gross earnings. Employee contributions on a pretax basis are permitted but not required. The City will match up to 3% of an employee's contribution. During the year, the City's required and actual contributions amounted to \$172,969; the employee contributions were \$42,402.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

Plan Description – The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts. Currently, fifty-four retired employees receive this benefit. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$578,517.

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

Funding Progress – For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 985,720
Interest on the prior year's net OPEB obligation	-
Less: adjustment to the annual required contribution	-
Annual OPEB cost	<u>985,720</u>
Amounts contributed:	
Payments of current premiums	(479,311)
Advance funding	-
Increase in net OPEB obligation	<u>506,409</u>
OPEB obligation – Beginning of year	<u>948,515</u>
OPEB obligation – End of year	<u><u>\$ 1,454,924</u></u>

The OPEB obligation is recorded as follows:

Governmental activities	1,454,924
Business-type activities	-
Total	<u><u>\$ 1,454,924</u></u>

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>OPEB Costs</u>	<u>Percentage</u> <u>of ARC</u> <u>Contributed</u>	<u>Net</u> <u>Obligation</u>
6/30/2011	6/30/2011	\$ 905,797	\$905,797	76.7%	\$(605,663)
6/30/2012	6/30/2011	\$ 852,461	\$852,461	59.8%	\$(948,515)
6/30/2013	6/30/2013	\$ 985,720	\$985,720	51.4%	\$(1,454,924)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

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

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

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

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

C. Risk Management

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

C. Risk Management – Continued

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

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

D. Jointly Governed Organizations

1. Resource Recovery Authority

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

2. Water Authority

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

E. Contingencies

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

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2013

IV. OTHER INFORMATION – Continued

F. Up Coming Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued two new pronouncements in June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, which amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, which amends GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures*. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and measuring and recognizing liabilities and expenses. GASB No. 68 will require employers with defined benefit pension plans to recognize their unfunded pension benefit obligation as a liability on the government-wide and proprietary financial statements. These new standards will result in additional disclosures and required and supplemental information, and will be effective beginning with the City's fiscal year ended June 30, 2015.

G. Subsequent Events

1. As discussed in Note III. E, the City was informed by its financial advisor that that interest subsidies under IRC 1400-02 and IRC 54 AA will likely not occur for the ensuing fiscal year due to federal budget reductions. The advisor also warns that all future subsidies may not be available as well. The remaining federal subsidies are described in Note III. E.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2013

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	11,759,058	18,472,108	6,713,050	64%	2,124,567	316%
12/31/04	11,689,112	19,615,059	7,925,947	60%	2,062,345	384%
12/31/05	11,645,611	20,764,383	9,118,772	56%	1,797,855	507%
12/31/06	11,685,908	21,083,175	9,397,267	55%	1,806,265	520%
12/31/07	11,863,343	21,384,036	9,520,693	55%	1,811,247	526%
12/31/08	11,535,295	22,526,522	10,991,227	51%	1,750,947	628%
12/31/09	11,294,978	22,220,273	10,925,295	51%	1,541,458	709%
12/31/10	11,127,900	22,541,775	11,413,875	49%	1,595,797	715%
12/31/11	11,100,236	22,841,140	11,740,904	49%	1,392,751	843%
12/31/12	10,959,414	23,182,320	12,222,906	47%	1,087,486	1124%

Additional information as of December 31, 2012, the latest actual valuation, follows:

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

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2013

Fire Department Defined Benefit Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Modified Aggregate (b)	Excess Assets Over (Under) AAL (b-a)	Funded Ratio (a/b)
7/1/98	\$ 333,943	\$ 475,081	\$ (141,138)	70%
7/1/99	334,760	496,481	(161,721)	67%
7/1/00	296,628	1,996,539	(1,699,911)	15%
7/1/01	476,761	1,300,528	(823,767)	37%
7/1/02	659,108	1,790,984	(1,131,876)	37%
7/1/03	939,097	1,935,950	(996,853)	49%
7/1/04	1,302,908	2,503,944	(1,201,036)	52%
7/1/05	1,695,905	3,023,387	(1,327,482)	56%
7/1/06	2,579,735	3,413,211	(833,476)	75%
7/1/08	2,589,045	3,812,660	(1,223,615)	68%
7/1/09	1,950,413	2,770,446	(820,033)	70%
7/1/11	2,890,673	2,962,741	(72,068)	98%
7/1/13	3,245,753	3,103,799	141,954)	105%

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

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

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

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 4,471,900	\$ 4,436,900	\$ 4,476,768	\$ 39,868
Penalties and Interest	38,000	40,750	40,626	(124)
Property Tax Administration Fee	160,000	173,000	172,631	(369)
Licenses and Permits	147,350	162,350	170,173	7,823
Intergovernmental – Federal	-	28,200	100,116	71,916
Intergovernmental – State	857,900	1,003,900	1,017,812	13,912
Intergovernmental – Local	26,670	26,670	26,672	2
Charges for Services	223,500	207,000	190,219	(16,781)
Fines and Forfeitures	159,700	181,500	184,320	2,820
Franchise Fees	175,000	175,000	196,273	21,273
Interest Earnings	24,000	24,000	30,618	6,618
Other Revenues	245,000	458,400	408,039	(50,361)
Total Revenues	6,529,020	6,917,670	7,014,267	96,597
Expenditures:				
General Government:				
City Council	18,410	18,410	17,029	1,381
City Manager	136,505	138,355	136,265	2,090
Elections	20,000	19,000	16,454	2,546
Finance	47,425	61,656	60,901	755
Assessor	88,900	88,900	85,607	3,293
Attorney	117,000	117,000	116,649	351
Clerk	174,170	184,870	182,446	2,424
Treasurer	170,395	145,009	133,531	11,478
City Hall	266,275	263,380	252,860	10,520
Planning Commission	97,000	75,200	73,085	2,115
Total General Government	1,136,080	1,111,780	1,074,827	36,953
Public Safety:				
Police	2,065,700	2,068,400	2,041,007	27,393
Fire	206,955	211,955	208,166	3,789
Inspection and Engineering	273,535	293,055	290,642	2,413
Total Public Safety	2,546,190	2,573,410	2,539,815	33,595
Public Works:				
Department of Public Works	413,640	408,195	393,129	15,066
Street Lighting	219,600	230,000	228,686	1,314
Total Public Works	633,240	638,195	621,815	16,380
Health and Welfare:				
Senior Citizens	159,405	217,185	214,237	2,948
Youth Programs	5,025	5,025	5,025	-
Total Health and Welfare	164,430	222,210	219,262	2,948
Recreation and Cultural:				
Parks	232,025	275,145	264,830	10,315
Recreation	325,140	253,140	249,538	3,602
Historical	22,390	25,390	24,798	592
Total Recreation and Cultural	579,555	553,675	539,166	14,509

(Continued)

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures: (continued)				
Other Functions:				
Unemployment	\$ 12,000	2,000	-	\$ 2,000
PTO Buyouts/General Insurance	-	131,000	128,247	2,753
Retiree Health Insurance	816,050	753,000	732,037	20,963
Retiree MERS Post Retirement Costs	578,625	578,625	578,515	110
Cable TV/Internet	37,850	30,850	26,308	4,542
Other	-	-	-	-
Total Other Functions	<u>1,444,525</u>	<u>1,495,475</u>	<u>1,465,107</u>	<u>30,368</u>
Capital Outlay	<u>160,975</u>	<u>379,975</u>	<u>3,109,644</u>	<u>(2,729,669)</u>
Total Expenditures	<u>6,664,995</u>	<u>6,974,720</u>	<u>9,569,636</u>	<u>(2,594,916)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(135,975)</u>	<u>(57,050)</u>	<u>(2,555,369)</u>	<u>(2,498,319)</u>
Other Financing Sources (Uses):				
Transfers In	30,000	30,000	30,000	-
Transfers (Out)	(55,000)	(55,000)	(55,000)	-
Proceeds from Long Term Debt	-	-	2,659,819	2,659,819
Total Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>2,634,819</u>	<u>2,659,819</u>
Net Change in Fund Balance	(160,975)	(82,050)	79,450	161,500
Fund Balance – Beginning	<u>1,606,096</u>	<u>1,606,096</u>	<u>1,606,096</u>	<u>-</u>
Fund Balance – Ending	<u>\$ 1,445,121</u>	<u>\$ 1,524,046</u>	<u>\$ 1,685,546</u>	<u>\$ 161,500</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects RZED Cap. Imp. Bonds</u>	<u>Library Unlim. G.O. Bonds Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 586,610	\$ 400,335	\$ 15,909	\$ 1,002,854
Receivables (net of Allowance for Uncollectibles)	-	-	-	-
Due from Other Funds	-	-	6,377	6,377
Due from State	55,945	-	-	55,945
Prepaid Expenditures	<u>18,979</u>	<u>-</u>	<u>-</u>	<u>18,979</u>
Total Assets	<u>\$ 661,534</u>	<u>\$ 400,335</u>	<u>\$ 22,286</u>	<u>\$ 1,084,155</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 107,487	\$ -	\$ -	\$ 107,487
Due to Other Funds	-	-	-	-
Due to Component Unit	-	60,000	-	60,000
Accrued and Other Liabilities	10,460	-	-	10,460
Total Liabilities	<u>117,947</u>	<u>60,000</u>	<u>-</u>	<u>177,947</u>
Fund Balance:				
Non Spendable:				
Prepaid Expenditures	18,979	-	-	18,979
Restricted:				
Special Revenue Funds	524,608	-	-	524,608
Debt Service	-	-	22,286	22,286
Capital Projects	-	340,335	-	340,335
Total Fund Balance	<u>543,587</u>	<u>340,335</u>	<u>22,286</u>	<u>906,208</u>
Total Liabilities and Fund Balance	<u>\$ 661,534</u>	<u>\$ 400,335</u>	<u>\$ 22,286</u>	<u>\$ 1,084,155</u>

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects RZED Cap. Imp. Bonds</u>	<u>Library Unlim. G.O. Bonds Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Property Taxes	\$ 1,060,968	\$ -	\$ 182,970	\$ 1,243,938
Intergovernmental-State	689,977	-	-	689,977
Interest	807	623	127	1,557
Other	178,041	138,663	-	316,704
Total Revenues	<u>1,929,793</u>	<u>139,286</u>	<u>183,097</u>	<u>2,252,176</u>
Expenditures:				
Highways, Streets, Sidewalks, and other Maintenance	667,382	3,919	-	671,301
Capital Outlay	81,436	-	-	81,436
Debt Service:				
Principal	-	-	135,000	135,000
Interest and Other Charges	-	-	42,826	42,826
Sanitation	738,122	-	-	738,122
Recreation and Culture	468,979	-	-	468,979
Total Expenditures	<u>1,955,919</u>	<u>3,919</u>	<u>177,826</u>	<u>2,137,664</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(26,126)</u>	<u>135,367</u>	<u>5,271</u>	<u>114,512</u>
Other Financing Sources (Uses):				
Transfers In	120,000	-	-	120,000
Transfers Out	(65,000)	-	-	(65,000)
Transfers to Component Unit	-	(60,000)	-	(60,000)
Total Other Financing Sources (Uses)	<u>55,000</u>	<u>(60,000)</u>	<u>-</u>	<u>(5,000)</u>
Net Change in Fund Balances	28,874	75,367	5,271	109,512
Fund Balance – July 1	<u>514,713</u>	<u>264,968</u>	<u>17,015</u>	<u>796,696</u>
Fund Balance – June 30	<u>\$ 543,587</u>	<u>\$ 340,335</u>	<u>\$ 22,286</u>	<u>\$ 906,208</u>

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013

	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Refuse Collection</u>	<u>Sidewalk</u>	<u>Total Nonmajor Special Revenue Funds</u>
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 249,532	\$ 144,228	\$ 18,869	\$ 33,759	\$ 140,222	\$ 586,610
Receivables (net of Allowance for Uncollectibles)	-	-	-	-	-	-
Due from State	39,709	16,236	-	-	-	55,945
Prepaid Expenditures	<u>12,648</u>	<u>1,403</u>	<u>4,928</u>	<u>-</u>	<u>-</u>	<u>18,979</u>
Total Assets	<u>\$ 301,889</u>	<u>\$ 161,867</u>	<u>\$ 23,797</u>	<u>\$ 33,759</u>	<u>\$ 140,222</u>	<u>\$ 661,534</u>
<u>LIABILITIES AND FUND BALANCE</u>						
Liabilities:						
Accounts Payable	\$ 9,386	\$ 550	\$ 8,100	\$ 31,073	\$ 58,378	\$ 107,487
Accrued Liabilities	1,749	870	7,841	-	-	10,460
Total Liabilities	<u>11,135</u>	<u>1,420</u>	<u>15,941</u>	<u>31,073</u>	<u>58,378</u>	<u>117,947</u>
Fund Balance:						
Non Spendable:						
Prepaid Expenditures	12,648	1,403	4,928	-	-	18,979
Restricted:						
Special Revenue Funds	<u>278,106</u>	<u>159,044</u>	<u>2,928</u>	<u>2,686</u>	<u>81,844</u>	<u>524,608</u>
Total Fund Balance	<u>290,754</u>	<u>160,447</u>	<u>7,856</u>	<u>2,686</u>	<u>81,844</u>	<u>543,587</u>
Total Liabilities and Fund Balance	<u>\$ 301,889</u>	<u>\$ 161,867</u>	<u>\$ 23,797</u>	<u>\$ 33,759</u>	<u>\$ 140,222</u>	<u>\$ 661,534</u>

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Refuse Collection</u>	<u>Sidewalk</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues:						
Taxes	\$ -	\$ -	\$ 407,194	\$ 653,774	\$ -	\$ 1,060,968
Intergovernmental-State	459,976	219,373	10,628	-	-	689,977
Interest Income	242	148	167	250	-	807
Other	7,031	-	37,753	21,232	112,025	178,041
Total Revenues	<u>467,249</u>	<u>219,521</u>	<u>455,742</u>	<u>675,256</u>	<u>112,025</u>	<u>1,929,793</u>
Expenditures:						
Highways, Streets, Sidewalks and Other Maintenance	353,019	314,363	-	-	-	667,382
Capital Outlay	-	-	-	-	81,436	81,436
Sanitation	-	-	-	738,122	-	738,122
Recreation and Culture	-	-	468,979	-	-	468,979
Total Expenditures	<u>353,019</u>	<u>314,363</u>	<u>468,979</u>	<u>738,122</u>	<u>81,436</u>	<u>1,955,919</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>114,230</u>	<u>(94,842)</u>	<u>(13,237)</u>	<u>(62,866)</u>	<u>30,589</u>	<u>(26,126)</u>
Other Financing Sources (Uses):						
Operating Transfers In	-	65,000	-	55,000	-	120,000
Operating Transfers Out	(65,000)	-	-	-	-	(65,000)
Total Other Financing Sources (Uses)	<u>(65,000)</u>	<u>65,000</u>	<u>-</u>	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Net Change in Fund Balance	49,230	(29,842)	(13,237)	(7,866)	30,589	28,874
Fund Balance – July 1	<u>241,524</u>	<u>190,289</u>	<u>21,093</u>	<u>10,552</u>	<u>51,255</u>	<u>514,713</u>
Fund Balance – June 30	<u>\$ 290,754</u>	<u>\$ 160,447</u>	<u>\$ 7,856</u>	<u>\$ 2,686</u>	<u>\$ 81,844</u>	<u>\$ 543,587</u>

