

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended June 30, 2009

CITY OF CLARE

CITY COMMISSION

Pat Humphrey	Mayor
Jean McConnell	Mayor Pro Tem
Bill Horwood	Commissioner
John Koch	Commissioner
Tom Koch	Commissioner

MANAGEMENT

Ken Hibl	City Manager
Diane Schmidt	City Clerk
Steven Kingsbury	Finance Director & Treasurer

CITY POPULATION–2000 CENSUS
3,173

STATE EQUALIZED VALUE–2008
\$101,877,600

STATE TAXABLE VALUE–2008
\$84,821,983

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2009**

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INDEPENDENT AUDITORS' REPORT

To the Members of the City Council
City of Clare
Clare and Isabella Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Clare's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare as of June 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, beginning net assets of the Sewer Fund, Water Fund, Mobile Equipment Internal Service Fund, Governmental Activities, Business-Type Activities and the Downtown Development Authority Component Unit have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of the City of Clare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 45 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The combining financial statements on pages 47 through 53 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burnside & Long, P.C.

Midland, Michigan
November 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Clare's financial performance provides an overview of the City financial activities for the fiscal year that ended on June 30, 2009. Please read it in conjunction with the financial statements following this section.

The intent and objective of providing the management discussion and analysis is to provide the reader a quick summary of salient points and highlights of the City's financial statements while concurrently offering interested parties an appreciation of the City as a complex financial organization providing valuable services to the residents of the City of Clare. The City continues to evolve in response to citizen desires, economic conditions and decisions of the elected and appointed officials charged with governance of the City of Clare.

This report presents information on both governmental activities and business-type activities. The governmental activities include the basic operations within City Hall, the Department of Public Works, the Parks and Recreation Department, Public Safety (police and fire protection), the City's airport, community development and related debt service and capital outlay. The business-type activities include the City's public utilities (water and wastewater).

Financial Highlights

- The City's combined net assets decreased by \$43,657 or 0.33% ending the fiscal year with a balance of \$13,061,727.
- The City's governmental activities net assets increased by \$194,057 or 2.73% during the fiscal year with an ending balance of \$7,312,656.
- The business-type activities (water and sewer services) net assets decreased \$237,714 or 3.97% to \$5,749,071 during the fiscal year.
- The City's undesignated General Fund Balance increased \$43,954 or 5.12% from a balance of \$858,324 at the end of the preceding fiscal year to \$902,278 at the conclusion of the fiscal year.
- Net assets of the City's Sewer Fund decreased \$178,175 at the end of the current fiscal year with net assets totaling \$4,080,764. The net assets of the Water Fund decreased slightly by \$45,328 to a fiscal year-end balance of \$1,396,815.
- The City's total outstanding debt (excluding component units) decreased \$523,854 or a considerable 18.73% resulting in a fiscal year-end balance of \$2,272,710. This is the third consecutive year that the City's total debt decreased more than 10%.
- At the close of the fiscal year the City's total net assets in its governmental activities were \$7,312,656, a slight decrease (2.73%) of \$194,057. The total net assets in the City's business-type activities (water and sewer) were \$5,749,071 as of the end of the fiscal year, a decrease of \$237,714 (3.97%).

Overview of the Financial Statements

This annual report consists of these elements: management’s discussion and analysis (this section); basic financial statements; and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long and short-term information about the City’s overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City government and report the City’s operation in more detail than the government-wide statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all government assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when the cash was received or paid.

The two government-wide statements report the City’s net assets and how they have changed. Net assets — the difference between the City’s total assets and total liabilities — is one way to measure the City’s financial health or position.

When analyzed over time, increases or decreases in the City’s net assets can be an indicator of whether its financial health is improving or deteriorating, respectively. This section will become more significant in future years with data trends from multiple accounting periods.

To assess the overall health of the City one also needs to consider additional non-financial factors such as changes in the City property tax base, the economy and the rate of growth.

The government-wide financial statements of the City are divided into two categories:

Governmental activities — The City’s basic services are included here and include police and fire protection, public works, parks, recreation, airport operations, community development, solid waste disposal, property assessment, finance and administration. Property taxes and state revenue sharing finance most of these activities. Grants, fees for programs, licenses and permits are also sources of revenue for the City of Clare.

Business-type activities — The City of Clare charges user fees to cover the cost of providing public water services and to finance the operations of the public wastewater utility operated by the City.

Fund Financial Statements

The fund financial statements provide detailed information about the City’s significant funds. Funds are accounting categories that municipalities use to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

Governmental funds — Most of the City’s basic services are included in governmental funds that focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, governmental fund statements describe how general government services such as public safety and public works are financed in the short term as well as what future spending remains. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided at the bottom of the governmental fund statements to explain the differences.

Proprietary funds — Services for which the City charges users and other types of fees are reported in propriety funds. For the City of Clare these include public water and sewer services. Propriety fund statements provide short and long-term financial information about these activities that the City operates like a business.

Fiduciary funds — The City is a trustee, or fiduciary, for the collection of all property taxes for the City and for all taxing districts, including the local K-12 school district, the intermediate school district, a community college, two counties and the State of Michigan. All the City’s fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City’s government-wide financial statements as these assets cannot be used to finance the operations of the city.

Financial Analysis of the City as a Whole

Net Assets — The City’s combined net assets decreased by \$43,657 or 0.03% in the reporting period ending June 30, 2009. The following table describes the net assets of the City. For complete, detailed financial statements refer to page nine.

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets:						
Current assets	\$1,670,835	\$1,766,585	\$1,595,772	\$1,719,494	\$3,266,607	\$3,486,079
Capital assets	7,131,886	6,840,612	5,679,571	5,846,804	12,811,457	12,687,416
Total assets	<u>8,802,721</u>	<u>8,607,197</u>	<u>7,300,343</u>	<u>7,566,298</u>	<u>16,103,064</u>	<u>16,173,495</u>
Liabilities:						
Current liabilities	454,297	340,353	254,272	711,543	708,569	1,051,896
Long-term liabilities	1,035,768	872,702	1,297,000	1,400,000	2,332,768	2,272,702
Total liabilities	<u>1,490,065</u>	<u>1,213,055</u>	<u>1,551,272</u>	<u>2,111,543</u>	<u>3,041,337</u>	<u>3,324,598</u>
Net Assets:						
Invested in capital assets –						
Net of related debt	6,259,176	5,863,056	4,279,571	4,027,804	10,587,075	9,890,860
Restricted	-	-	25,000	25,000	25,000	25,000
Unrestricted	1,053,480	1,531,086	1,444,500	1,401,951	2,449,652	2,933,037
Total net assets	<u>\$7,312,656</u>	<u>\$ 7,394,142</u>	<u>\$5,749,071</u>	<u>\$5,454,755</u>	<u>\$13,061,727</u>	<u>\$12,848,897</u>

Changes in Net Assets

The City's 2008/2009 total revenues were \$4,874,557 and total expenses were \$4,918,214 resulting in a very slight overall decrease of net assets of \$43,657. The following table shows the changes of net assets for the year ending June 30, 2009. For complete, detailed financial statements refer to page ten.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Program Revenues:						
Charges for services	\$ 748,625	\$ 983,111	\$ 1,210,500	\$ 1,339,386	\$ 1,959,125	\$ 2,322,497
Operating grants and contributions	534,567	205,226	139,403	-	673,970	205,226
Capital grants and contributions	43,685	16,539	-	3,994	43,685	20,533
General Revenues:						
Property taxes and related fees	1,649,588	1,522,170	-	-	1,649,588	1,522,170
Federal aid	-	229,937	-	-	-	229,937
State aid	394,288	596,647	-	-	394,288	596,647
Interest earnings	71,310	82,185	53,276	57,475	124,586	139,660
Other	26,096	43,416	3,219	110,078	29,315	153,494
Transfers	-	(35,319)	-	35,319	-	-
Total revenues	<u>3,468,159</u>	<u>3,643,912</u>	<u>1,406,398</u>	<u>1,546,252</u>	<u>4,874,557</u>	<u>5,190,164</u>
Program Expenses:						
General government	660,470	1,152,055	-	-	660,470	1,152,055
Public safety	1,160,177	1,183,289	-	-	1,160,177	1,183,289
Public works	589,508	748,417	-	-	589,508	748,417
Community development	104,474	211,477	-	-	104,474	211,477
Recreation and culture	690,038	426,516	-	-	690,038	426,516
Asset sales	-	172,050	-	-	-	172,050
Interest paid	69,435	71,551	-	-	69,435	71,551
Sewer	-	-	1,078,552	884,999	1,078,552	884,999
Water	-	-	565,560	525,568	565,560	525,568
Total program expenses	<u>3,274,102</u>	<u>3,965,355</u>	<u>1,644,112</u>	<u>1,410,567</u>	<u>4,918,214</u>	<u>5,375,922</u>
Change in net assets	194,057	(321,443)	(237,714)	135,685	(43,657)	(185,758)
Net assets - beginning	<u>7,118,599</u>	<u>7,713,014</u>	<u>5,986,785</u>	<u>5,319,070</u>	<u>13,105,384</u>	<u>13,032,084</u>
Net assets - ending	<u>\$ 7,312,656</u>	<u>\$ 7,391,571</u>	<u>\$ 5,749,071</u>	<u>\$ 5,454,755</u>	<u>\$ 13,061,727</u>	<u>\$ 12,846,326</u>

Governmental Activities

Revenues for the City's governmental activities totaled \$3,468,159, which equated to a decrease in governmental activity revenues of \$175,753 from the previous fiscal year's revenues in this category.

Proprietary Funds

The City's business-type activities revenues decreased \$139,854 during this fiscal reporting period while total expenses increased \$233,545.

Financial Analysis of the City's Funds

As the City completed its fiscal year its governmental funds reported a combined fund balance of \$1,560,952, a slight decrease of \$63,489 or 3.91%.

General Fund Budgetary Highlights

A detailed General Fund budget is adopted by the City Council on an annual basis following a series of scheduled publicly held budget workshops and appropriately noticed public hearings. Budget amendments were made throughout the year to adjust or compensate for unanticipated operational and emergency-type expenses and to transfer funds from one operating fund to another.

The City's ending General Fund balance increased slightly by \$7,839 or 0.83% to \$955,081.

Capital Assets

The City (excluding its component units) had net investments of \$12,811,457 in capital assets at the end of this fiscal reporting period. These assets include municipally-owned buildings and land, public safety equipment (police and firefighting equipment and vehicles), recreational facilities and water and sewer infrastructure (water towers, pump stations, underground distribution and collection systems, etc.). The City has completed its inventory of public roads and sidewalks as required by GASB 34 and these values are included in the City's net investments in capital assets.

Long Term Debt

At year end, the City (excluding its component units) had \$2,272,710 in outstanding bonds and notes, a decrease of \$523,854 from the previous fiscal year. Bond indebtedness is the result of bonds sold by the City to finance various public improvement projects over the years, to include the construction of wastewater treatment facilities, expansion of the existing sanitary sewer and water distribution systems and most recently the construction of a new public safety building.

Economic Factors and Next Year's Budget

Economic Factors

- Though state revenue sharing decreased during the fiscal year it continues to be a concern with potential downward trends being anticipated as the state government continues to work on its budget deficits. Elected officials and staff of the City of Clare recognize the impact that this issue could have on the City and therefore have continued to proactively increase other revenue sources, reduce overall debt and continues vigilant in reducing overall expenses.
- A number of local industrial firms continue to make significant investments in their respective businesses in Clare – most notably, Alro Steel, JD Metalworks, Letherer Truss and Stageright have continued to make significant commitments to future expansion and further development of their existing manufacturing ventures. The City's primary industrial park is now at maximum capacity and expansion opportunities are currently being identified/evaluated to continue the City's industrial development.
- The local housing market has remained relatively unchanged with only a handful of new housing starts during the City's fiscal year.
- The cost of employee health care has continued to increase at a rate exceeding inflation and is actively being addressed by the City to contain to future cost increases.

2008/2009 Budget

The City adopted its 2008/2009 budget on June 2, 2008. Approved appropriations were commensurate with those of the City's 2008/2009 adopted budget. As a general rule, only consumer price index and labor contract mandated increases were made in the new budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide the citizens of the City of Clare, taxpayers, customers, investors and creditors with a general overview of the City's finances. It is intended to demonstrate the City's accountability for the funds it receives and expends. If you have any questions about this report or would like additional information please encouraged to contact the following individuals as indicated below:

Mr. Ken Hibl
City Manager
Email: khibl@cityofclare.org

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Treasurer, Finance Director and
Director of Information Technology
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Website: www.cityofclare.org

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			Component Units
	Governmenta Activities	Business-Type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 296,383	\$ 9,501	\$ 305,884	\$ 393,999
Cash and investments held by trustee	86,000	-	86,000	-
Investments	1,085,000	915,000	2,000,000	-
Accounts receivable, net	58,274	181,178	239,452	25,956
Accrued interest receivable	12,034	10,149	22,183	-
Assessments receivable	98,458	180,177	278,635	-
Internal balances	(271,492)	271,492	-	-
Due from other governmental units	221,825	-	221,825	-
Inventory	32,923	14,233	47,156	-
Prepaid items	51,430	14,042	65,472	350
Total current assets	1,670,835	1,595,772	3,266,607	420,305
Noncurrent assets:				
Restricted cash	-	25,000	25,000	-
Notes receivable	-	-	-	14,375
Total noncurrent assets	-	25,000	25,000	14,375
Capital assets:				
Land	3,595,561	53,389	3,648,950	124,626
Construction in progress	120,100	124,701	244,801	-
Land improvements and infrastructure, net	342,851	47,992	390,843	321,681
Buildings and improvements, net	1,794,226	1,618,131	3,412,357	-
Equipment, net	620,592	73,686	694,278	-
Vehicles, net	658,556	-	658,556	-
Sewer and water system infrastructure, net	-	3,761,672	3,761,672	-
Total capital assets	7,131,886	5,679,571	12,811,457	446,307
Total assets	8,802,721	7,300,343	16,103,064	880,987
LIABILITIES				
Current liabilities:				
Accounts payable	238,021	105,241	343,262	6,847
Accrued expenses	103,158	27,831	130,989	7,350
Due to other governmental units	16,572	-	16,572	33,366
Deposits and other liabilities	3,294	18,200	21,494	-
Bonds and contracts payable	70,790	103,000	173,790	137,000
Landfill post-closure liability	22,462	-	22,462	-
Total current liabilities	454,297	254,272	708,569	184,563
Long-term liabilities:				
Bonds and contracts payable	801,920	1,297,000	2,098,920	593,000
Landfill post-closure liability	233,848	-	233,848	-
Total long-term liabilities	1,035,768	1,297,000	2,332,768	593,000
Total liabilities	1,490,065	1,551,272	3,041,337	777,563
NET ASSETS				
Invested in capital assets, net of related debt	6,259,176	4,279,571	10,538,747	(283,693)
Restricted for:				
Debt service	-	25,000	25,000	-
Unrestricted	1,053,480	1,444,500	2,497,980	387,117
Total net assets	\$ 7,312,656	\$ 5,749,071	\$ 13,061,727	\$ 103,424

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Governmental activities:								
General government	\$ 660,470	\$ 96,544	\$ -	\$ 560	\$ (563,366)		\$ (563,366)	
Public safety	1,160,177	260,397	6,855	-	(892,925)		(892,925)	
Public works	589,508	189,803	323,388	-	(76,317)		(76,317)	
Community development	104,474	-	-	43,125	(61,349)		(61,349)	
Recreation and culture	690,038	201,881	204,324	-	(283,833)		(283,833)	
Interest paid	69,435	-	-	-	(69,435)		(69,435)	
Total governmental activities	3,274,102	748,625	534,567	43,685	(1,947,225)		(1,947,225)	
Business-type activities:								
Sewer	1,078,552	853,233	-	-		\$ (225,319)	(225,319)	
Water	565,560	357,267	139,403	-		(68,890)	(68,890)	
Total business-type activities	1,644,112	1,210,500	139,403	-		(294,209)	(294,209)	
Total primary government	\$ 4,918,214	\$ 1,959,125	\$ 673,970	\$ 43,685	(1,947,225)	(294,209)	(2,241,434)	
Component units:								
Downtown Development Authority	166,157	-	28,907	-			\$ (137,250)	
Local Development Finance Authority	19,508	-	-	-			(19,508)	
Total component units	\$ 185,665	\$ -	\$ 28,907	\$ -			(156,758)	
General revenues:								
Property taxes and related fees					1,649,588	-	1,649,588	201,788
State aid					394,288	-	394,288	-
Interest earnings					71,310	53,276	124,586	3,889
Miscellaneous					26,096	3,219	29,315	9,133
Total general revenues					2,141,282	56,495	2,197,777	214,810
Change in net assets					194,057	(237,714)	(43,657)	58,052
Net assets-beginning, as restated					7,118,599	5,986,785	13,105,384	45,372
Net assets-ending					\$ 7,312,656	\$ 5,749,071	\$ 13,061,727	\$ 103,424

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2009

	<u>General</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 223,676	\$ 6,542	\$ 42,458	\$ 272,676
Cash and investments held by trustee	-	-	86,000	86,000
Investments	520,000	125,000	360,000	1,005,000
Accounts and grants receivable, net	41,608	14,938	-	56,546
Accrued interest receivable	5,768	1,386	3,993	11,147
Assessment receivable, net	40,000	-	58,458	98,458
Advances to other funds	172,000	-	-	172,000
Due from other governmental units	171,981	-	49,844	221,825
Inventory	18,571	3,109	-	21,680
Prepaid items	34,232	4,557	8,667	47,456
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,227,836</u>	<u>\$ 155,532</u>	<u>\$ 609,420</u>	<u>\$ 1,992,788</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 174,412	\$ 5,022	\$ 52,392	\$ 231,826
Accrued expenses	38,477	37,230	5,979	81,686
Due to other governmental units	16,572	-	-	16,572
Deposits and other liabilities	3,294	-	-	3,294
Deferred revenue	40,000	-	58,458	98,458
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>272,755</u>	<u>42,252</u>	<u>116,829</u>	<u>431,836</u>
Fund balances:				
Reserved for:				
Inventories	18,571	3,109	-	21,680
Prepaid items	34,232	4,557	8,667	47,456
Postclosure landfill costs	-	-	86,000	86,000
Unreserved and undesignated	902,278	105,614	397,924	1,405,816
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>955,081</u>	<u>113,280</u>	<u>492,591</u>	<u>1,560,952</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,227,836</u>	<u>\$ 155,532</u>	<u>\$ 609,420</u>	<u>\$ 1,992,788</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balances for governmental funds (Exhibit 4)		\$ 1,560,952
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 3,510,561	
Construction in progress	120,100	
Land improvements, net of \$42,608 accumulated depreciation	342,851	
Buildings and improvements, net of \$622,723 accumulated depreciation	1,431,050	
Equipment, net of \$322,739 accumulated depreciation	479,253	
Vehicles, net of \$368,662 accumulated depreciation	427,461	
Total capital assets		6,311,276
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds		
Special assessments receivable		98,458
The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service fund's unrestricted net assets are:		
		399,434
Certain liabilities are not due and payable in the current period and are not reported in the funds		
Accrued interest payable		(18,154)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.		
Balances at June 30, 2009 are:		
Installment purchase contracts	(54,000)	
2004 General Obligation Limited Tax Bond	(729,000)	
Landfill post-closure liability	(256,310)	(1,039,310)
Total net assets of governmental activities (Exhibit 2)		\$ 7,312,656

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the Year Ended June 30, 2009

	<u>General</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES				
Property taxes and related fees	\$ 1,566,242	\$ -	\$ 83,346	\$ 1,649,588
Licenses and permits	24,545	-	-	24,545
Federal aid	195,456	-	14,375	209,831
State aid	399,001	-	322,303	721,304
Charges for services	459,321	186,727	15,650	661,698
Interest earnings	46,415	5,423	17,192	69,030
Rents and royalties	37,377	-	-	37,377
Fines and forfeits	16,310	-	-	16,310
Special assessments, net	20,091	-	23,509	43,600
Donations	8,651	2,142	28,750	39,543
Miscellaneous	18,163	2,910	5,240	26,313
Total revenues	<u>2,791,572</u>	<u>197,202</u>	<u>510,365</u>	<u>3,499,139</u>
EXPENDITURES				
General government	636,924	-	-	636,924
Public safety	878,156	175,695	2,467	1,056,318
Public works	322,011	-	498,019	820,030
Community development	21,018	-	83,456	104,474
Recreation and culture	485,227	-	-	485,227
Capital outlay	217,566	124,750	-	342,316
Debt service	-	67,814	49,525	117,339
Total expenditures	<u>2,560,902</u>	<u>368,259</u>	<u>633,467</u>	<u>3,562,628</u>
Excess (deficiency) of revenues over expenditures	<u>230,670</u>	<u>(171,057)</u>	<u>(123,102)</u>	<u>(63,489)</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	28,000	100,616	194,025	322,641
Transfers-out	<u>(250,831)</u>	<u>(19,810)</u>	<u>(52,000)</u>	<u>(322,641)</u>
Total other financing sources and uses	<u>(222,831)</u>	<u>80,806</u>	<u>142,025</u>	<u>-</u>
Net change in fund balances	7,839	(90,251)	18,923	(63,489)
Fund balances-beginning	<u>947,242</u>	<u>203,531</u>	<u>473,668</u>	<u>1,624,441</u>
Fund balances-ending	<u>\$ 955,081</u>	<u>\$ 113,280</u>	<u>\$ 492,591</u>	<u>\$ 1,560,952</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit 5) \$ (63,489)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$377,622 was more than depreciation (\$172,747) in the current period 204,875

Revenues in the funds that represent repayment of special assessments receivable that do not affect the statement of activities. (34,905)

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

Increase in accrued interest payable	(18,154)
Decrease in post-closure landfill costs	56,609

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

Repayments:		
Installment purchase contract	\$ 27,000	
2004 General Obligation Limited Tax Bond	16,000	
Capital lease obligation	<u>35,242</u>	78,242

The internal service funds (see exhibit 7) are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within governmental activities.

Deduct:	
Net operating loss from governmental activities in internal service funds	(20,862)
Interest earnings from governmental internal service funds	3,365
Gain(loss) on sale of capital assets in governmental internal service funds	560
Interest expense from governmental internal service funds	<u>(12,184)</u>

Change in net assets of governmental activities (Exhibit 3) \$ 194,057

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2009

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,385	\$ 4,116	\$ 9,501	\$ 23,707
Investments	575,000	340,000	915,000	80,000
Accounts receivable, net	101,253	79,925	181,178	1,728
Accrued interest receivable	6,378	3,771	10,149	887
Assessments receivable	175,886	4,291	180,177	-
Inventory	9,588	4,645	14,233	11,243
Prepaid items	6,412	7,630	14,042	3,974
Total current assets	<u>879,902</u>	<u>444,378</u>	<u>1,324,280</u>	<u>121,539</u>
Noncurrent assets:				
Restricted cash	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Capital assets:				
Land	10,757	42,632	53,389	85,000
Construction in progress	111,593	13,108	124,701	-
Land improvements, net	47,992	-	47,992	-
Buildings and improvements, net	1,530,396	87,735	1,618,131	363,176
Equipment, net	70,882	2,804	73,686	141,339
Vehicles, net	-	-	-	231,095
Sewer and water system infrastructure, net	<u>2,610,177</u>	<u>1,151,495</u>	<u>3,761,672</u>	<u>-</u>
Total capital assets	<u>4,381,797</u>	<u>1,297,774</u>	<u>5,679,571</u>	<u>820,610</u>
Total assets	<u>5,286,699</u>	<u>1,742,152</u>	<u>7,028,851</u>	<u>942,149</u>
LIABILITIES				
Current liabilities:				
Accounts payable	95,521	9,720	105,241	6,195
Accrued expenses	17,214	10,617	27,831	3,318
Deposits and other liabilities	18,200	-	18,200	-
Advances from other funds	-	-	-	172,000
Bonds and contracts payable	<u>78,000</u>	<u>25,000</u>	<u>103,000</u>	<u>27,790</u>
Total current liabilities	<u>208,935</u>	<u>45,337</u>	<u>254,272</u>	<u>209,303</u>
Noncurrent liabilities				
Bonds and contracts payable	<u>997,000</u>	<u>300,000</u>	<u>1,297,000</u>	<u>61,920</u>
Total noncurrent liabilities	<u>997,000</u>	<u>300,000</u>	<u>1,297,000</u>	<u>61,920</u>
Total liabilities	<u>1,205,935</u>	<u>345,337</u>	<u>1,551,272</u>	<u>271,223</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,306,797	972,774	4,279,571	730,900
Restricted for debt obligations	25,000	-	25,000	-
Unrestricted (deficit)	<u>748,967</u>	<u>424,041</u>	<u>1,173,008</u>	<u>(59,974)</u>
Total net assets	<u>\$ 4,080,764</u>	<u>\$ 1,396,815</u>	<u>\$ 5,477,579</u>	<u>\$ 670,926</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE NET ASSETS ON THE STATEMENT OF NET ASSETS FOR
ENTERPRISE FUNDS TO THE NET ASSETS OF BUSINESS-TYPE ACTIVITIES
ON THE STATEMENT OF NET ASSETS
June 30, 2009

Net assets - total enterprise funds	\$ 5,477,579
Total net assets reported for business-type activities in the statement of net assets is different because:	
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. A portion of the assets and liabilities of the Internal Service Funds are included in the business-type activities in the statement of net assets.	<u>271,492</u>
Total net assets of business-type activities (Exhibit 2)	<u><u>\$ 5,749,071</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>	
OPERATING REVENUES				
Charges for services	\$ 840,640	\$ 355,635	\$ 1,196,275	\$ 483,227
Miscellaneous	3,037	7,504	10,541	7,234
Total operating revenues	<u>843,677</u>	<u>363,139</u>	<u>1,206,816</u>	<u>490,461</u>
OPERATING EXPENSES				
Salaries and wages	161,309	164,853	326,162	71,315
Payroll taxes	11,809	12,051	23,860	5,144
Employee benefits	30,789	33,717	64,506	25,206
Retirement	29,659	28,054	57,713	12,037
Supplies	55,283	49,099	104,382	71,273
Postage	4,446	1,532	5,978	-
Professional and contracted services	180,794	24,355	205,149	31,456
Insurance	6,418	2,395	8,813	18,416
Telephone and communications	3,677	2,730	6,407	1,360
Professional development	2,495	4,395	6,890	256
Utilities	81,146	68,852	149,998	21,730
Repair and maintenance	57,964	12,212	70,176	86,845
Equipment rental	110,600	79,907	190,507	-
Miscellaneous	5,919	3,054	8,973	120
Depreciation	262,414	53,500	315,914	180,376
Total operating expenses	<u>1,004,722</u>	<u>540,706</u>	<u>1,545,428</u>	<u>525,534</u>
Operating income (loss)	<u>(161,045)</u>	<u>(177,567)</u>	<u>(338,612)</u>	<u>(35,073)</u>
NONOPERATING REVENUES (EXPENSES)				
Special assessments	12,593	1,632	14,225	-
Interest earnings	35,857	17,419	53,276	3,365
Other revenue	-	131,436	131,436	-
Gain (loss) on sale of assets	-	-	-	560
Interest expense	<u>(65,580)</u>	<u>(18,893)</u>	<u>(84,473)</u>	<u>(12,184)</u>
Net nonoperating revenue (expenses)	<u>(17,130)</u>	<u>131,594</u>	<u>114,464</u>	<u>(8,259)</u>
Income (loss) before contributions	(178,175)	(45,973)	(224,148)	(43,332)
Contributions from other governmental units	<u>-</u>	<u>645</u>	<u>645</u>	<u>-</u>
Changes in net assets	(178,175)	(45,328)	(223,503)	(43,332)
Total net assets-beginning, as restated	<u>4,258,939</u>	<u>1,442,143</u>	<u>5,701,082</u>	<u>714,258</u>
Total net assets-ending	<u>\$ 4,080,764</u>	<u>\$ 1,396,815</u>	<u>\$ 5,477,579</u>	<u>\$ 670,926</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
OF ENTERPRISE FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Net change in net assets - total enterprise funds (Exhibit 7)	\$ (223,503)
The change in net assets reported for business-type activities in the statement of activities is different because:	
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. Some of the net revenue (expense) attributable to those funds is reported with business-type activities.	<u>(14,211)</u>
Change in net assets of business-type activities (Exhibit 3)	<u><u>\$ (237,714)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 866,282	\$ 348,761	\$ 1,215,043	\$ 490,547
Payments to suppliers	(408,578)	(236,971)	(645,549)	(218,228)
Payments to employees	(234,856)	(237,875)	(472,731)	(113,511)
Net cash provided (used) by operating activities	<u>222,848</u>	<u>(126,085)</u>	<u>96,763</u>	<u>158,808</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions from other governmental units	-	645	645	-
Other revenue	-	131,436	131,436	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>132,081</u>	<u>132,081</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases and construction of capital assets	(121,768)	(26,913)	(148,681)	(79,005)
Proceeds from special assessments	60,228	20,147	80,375	-
Repayments of advances from other funds	-	-	-	(43,000)
Principal paid on capital debt	(394,000)	(25,000)	(419,000)	(26,612)
Interest paid on capital debt	(65,580)	(18,893)	(84,473)	(12,184)
Net cash used by capital and related financing activities	<u>(521,120)</u>	<u>(50,659)</u>	<u>(571,779)</u>	<u>(160,801)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	(5,000)
Sale of investments	250,000	35,000	285,000	-
Interest earnings	29,479	13,648	43,127	2,478
Net cash provided by investing activities	<u>279,479</u>	<u>48,648</u>	<u>328,127</u>	<u>(2,522)</u>
Net increase (decrease) in cash and cash equivalents	(18,793)	3,985	(14,808)	(4,515)
Balances-beginning of the year	49,178	131	49,309	27,662
Balances-end of the year	<u>\$ 30,385</u>	<u>\$ 4,116</u>	<u>\$ 34,501</u>	<u>\$ 23,147</u>
Displayed as:				
Cash and cash equivalents	\$ 5,385	\$ 4,116	\$ 9,501	\$ 23,707
Restricted cash	25,000	-	25,000	-
	<u>\$ 30,385</u>	<u>\$ 4,116</u>	<u>\$ 34,501</u>	<u>\$ 23,707</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (161,045)	\$ (177,567)	\$ (338,612)	\$ (35,073)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	262,414	53,500	315,914	180,376
Change in assets and liabilities:				
Receivables, net	22,605	(14,378)	8,227	86
Inventory	1,197	6,230	7,427	(6,926)
Prepaid items	2,292	(3,541)	(1,249)	16,396
Accounts payable	94,000	8,871	102,871	3,758
Accrued expenses	(1,290)	800	(490)	191
Deposits and other liabilities	2,675	-	2,675	-
Net cash provided (used) by operating activities	<u>\$ 222,848</u>	<u>\$ (126,085)</u>	<u>\$ 96,763</u>	<u>\$ 158,808</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009

	<u>General Agency Fund</u>	<u>Current Tax Collection Fund</u>	<u>Payroll Imprest Fund</u>	<u>Health Resource Account Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 411	\$ 22,658	\$ 10,542	\$ 33,611
Total assets	<u>\$ -</u>	<u>\$ 411</u>	<u>\$ 22,658</u>	<u>\$ 10,542</u>	<u>\$ 33,611</u>
LIABILITIES					
Due to other governmental units	\$ -	\$ 411	\$ 1,997	\$ -	\$ 2,408
Due to others	-	-	20,661	10,542	31,203
Total liabilities	<u>\$ -</u>	<u>\$ 411</u>	<u>\$ 22,658</u>	<u>\$ 10,542</u>	<u>\$ 33,611</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2009

	Downtown Development Authority	Local Development Finance Authority	Total
Current assets:			
Cash and cash equivalents	\$ 121,418	\$ 272,581	\$ 393,999
Accounts receivable	25,956	-	25,956
Prepaid items	350	-	350
Total current assets	<u>147,724</u>	<u>272,581</u>	<u>420,305</u>
Noncurrent assets:			
Notes receivable	<u>14,375</u>	<u>-</u>	<u>14,375</u>
Capital assets:			
Land	124,626	-	124,626
Land improvements, net	<u>247,373</u>	<u>74,308</u>	<u>321,681</u>
Total capital assets	<u>371,999</u>	<u>74,308</u>	<u>446,307</u>
Total assets	<u>534,098</u>	<u>346,889</u>	<u>880,987</u>
LIABILITIES			
Liabilities:			
Accounts payable	6,847	-	6,847
Accrued expenses	4,333	3,017	7,350
Due to other governmental units	33,366	-	33,366
Bonds and contracts payable	<u>82,000</u>	<u>55,000</u>	<u>137,000</u>
Total current liabilities	<u>126,546</u>	<u>58,017</u>	<u>184,563</u>
Noncurrent liabilities			
Bonds and contracts payable	<u>408,000</u>	<u>185,000</u>	<u>593,000</u>
Total noncurrent liabilities	<u>408,000</u>	<u>185,000</u>	<u>593,000</u>
Total liabilities	<u>534,546</u>	<u>243,017</u>	<u>777,563</u>
NET ASSETS			
Invested in capital assets, net of related debt	(118,001)	(165,692)	(283,693)
Unrestricted	<u>117,553</u>	<u>269,564</u>	<u>387,117</u>
Total net assets (deficit)	<u>\$ (448)</u>	<u>\$ 103,872</u>	<u>\$ 103,424</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE COMPONENT UNITS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balances for component units (Exhibit 20)	\$	379,880
Total net assets reported for component units in the statement of net assets is different because:		
Capital assets used in the component units' governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$	124,626
Land improvements, net of \$75,047 accumulated depreciation	<u>321,681</u>	
Total capital assets		446,307
Other long-term assets are not available to pay for current period expenditures and are not reported in the funds		
Notes receivable		14,375
Certain liabilities are not due and payable in the current period and are not reported in the funds		
Accrued interest payable		(7,138)
Long-term liabilities applicable to the component units' governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2009 are:		
DDA Bonds	(490,000)	
LDFA Bonds	<u>(240,000)</u>	<u>(730,000)</u>
Total net assets of component units (Exhibit 10)	\$	<u><u>103,424</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
For the Year Ended June 30, 2009

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
Downtown Development Authority							
Community and economic development	\$ 166,157	\$ -	\$ 28,907	\$ -	\$ (137,250)	\$ -	\$ (137,250)
Local Development Finance Authority							
Community and economic development	<u>19,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,508)</u>	<u>(19,508)</u>
Total activities	<u>\$ 185,665</u>	<u>\$ -</u>	<u>\$ 28,907</u>	<u>\$ -</u>	<u>(137,250)</u>	<u>(19,508)</u>	<u>(156,758)</u>
General revenues:							
Tax increment					201,788	-	201,788
Interest earnings					1,054	2,835	3,889
Miscellaneous					<u>9,133</u>	<u>-</u>	<u>9,133</u>
Total general revenues					<u>211,975</u>	<u>2,835</u>	<u>214,810</u>
Change in net assets					74,725	(16,673)	58,052
Net assets (deficit)-beginning, as restated					<u>(75,173)</u>	<u>120,545</u>	<u>45,372</u>
Net assets (deficit)-ending					<u>\$ (448)</u>	<u>\$ 103,872</u>	<u>\$ 103,424</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF COMPONENT UNITS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Net change in fund balances - component units (Exhibit 20) \$ (153,344)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$102,096 was more than depreciation (\$17,937) in the current period. 84,159

Revenues in the funds that represent repayment of notes receivable that do not affect the statement of activities. 14,375

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.
 Increase in accrued interest payable (7,138)

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

Repayments:		
DDA Bonds	\$ 70,000	
LDFA Bonds	<u>50,000</u>	<u>120,000</u>

Change in net assets of component units (Exhibit 11) \$ 58,052

The accompanying notes are an integral part of these financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City of Clare (the “City”) is governed by an elected five-member commission. The City provides services to its various residents in many areas, including law enforcement, health and sanitation, community enrichment and development and human services. As required by GAAP, these financial statements present the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, “*The Financial Reporting Entity.*”

The individual component units discussed below are included in the City’s reporting entity because of the significance of its operational or financial relationships with the City.

Discretely Presented Component Units

The following component units are reported within the “component unit” column in the combined financial statements. A discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City’s financial statements to be misleading or incomplete.

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

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

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental 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 revenue.

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

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 the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, reimbursement based grants, certain charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City property tax is levied each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2008 taxable valuation of the City totaled \$84.8 million, on which ad valorem taxes levied consisted of 17.50 mills for City operating purpose, 0.7427 mills for streets, 0.2475 for sidewalks, and 0.7427 for parks. These amounts are recognized in the General Fund, Local Street Fund and Sidewalk Replacement Fund as property taxes and related fees.

The government reports the following major 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.

The Fire Department Fund is used to account for the activities related for fire protection for the City and neighboring communities.

The government reports the following major proprietary funds:

The Sewer Fund is used to record the revenues and expenses for the operation of the sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of the water system. Capital assets are recorded within the fund and depreciation is charged.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the government reports the following fund types:

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

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The sewer and water funds also recognize the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

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

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

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

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

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

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

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 5 years

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows the following procedures in establishing the budgetary data reflected in the financial statements.

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

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 3. INVESTMENTS AND DEPOSITS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements for the City's deposits and investments is as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement caption:			
Primary Government:			
Cash and cash equivalents	\$ 305,884	\$ -	\$305,884
Cash and investments held by trustee	86,000	-	86,000
Investments	-	2,000,000	2,000,000
Restricted cash and cash equivalents	25,000	-	25,000
Component Units:			
Cash and cash equivalents	393,999	-	393,999
Fiduciary Funds:			
Cash and cash equivalents	33,611	-	33,611
	<u>\$ 844,494</u>	<u>\$ 2,000,000</u>	<u>\$ 2,844,494</u>

Under its investment policy, the City restricts its investments to bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

The City restricts its deposits to banks, savings and loans associations or credit unions, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State of the United States. The City Commission has authorized the following financial institutions as depositories for the City of Clare: Chemical Bank & Trust Company-Clare, Isabella Bank-Clare and Firstbank-Clare.

As of June 30, 2009, the City of Clare had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
Repurchase Agreements	<u>\$ 2,000,000</u>	<u>310 days</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 3. INVESTMENTS AND DEPOSITS (Continued)

Investment and deposit risk

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

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

Custodial Credit Risk - Deposits-Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$472,803 of the City's bank balances of \$894,869 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Concentration of Credit Risk-The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The City's investments include \$2,000,000 of repurchase agreements with Chemical Bank & Trust Company.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

Primary Government Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 3,577,565	\$ 17,996	\$ -	\$ 3,595,561
Construction in progress	-	120,100	-	120,100
Subtotal	<u>3,577,565</u>	<u>138,096</u>	<u>-</u>	<u>3,715,661</u>
Capital Assets Being Depreciated				
Land Improvements	302,294	83,165	-	385,459
Buildings and Improvements	2,703,362	-	-	2,703,362
Equipment	1,487,753	189,422	-	1,677,175
Vehicles	1,677,519	45,944	(19,470)	1,703,993
Subtotal	<u>6,170,928</u>	<u>318,531</u>	<u>(19,470)</u>	<u>6,469,989</u>
Less Accumulated Depreciation for				
Land Improvements	(26,994)	(15,614)	-	(42,608)
Buildings and Improvements	(820,853)	(88,283)	-	(909,136)
Equipment	(953,728)	(91,709)	-	(1,045,437)
Vehicles	(918,536)	(157,517)	19,470	(1,056,583)
Subtotal	<u>(2,720,111)</u>	<u>(353,123)</u>	<u>19,470</u>	<u>(3,053,764)</u>
Net Capital Assets Being Depreciated	<u>3,450,817</u>	<u>(34,592)</u>	<u>-</u>	<u>3,416,225</u>
Governmental Activities Capital Assets– Net of Depreciation	<u>\$ 7,028,382</u>	<u>\$ 103,504</u>	<u>\$ -</u>	<u>\$ 7,131,886</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Construction in progress	-	124,701	-	124,701
Subtotal	<u>53,389</u>	<u>124,701</u>	<u>-</u>	<u>178,090</u>
Capital Assets Being Depreciated				
Land Improvements	412,516	-	-	412,516
Buildings and Improvements	4,433,877	13,805	-	4,447,682
Equipment	520,457	-	-	520,457
Infrastructure	6,915,938	10,175	-	6,926,113
Subtotal	<u>12,282,788</u>	<u>23,980</u>	<u>-</u>	<u>12,306,768</u>
Less Accumulated Depreciation for				
Land Improvements	(362,657)	(1,867)		(364,524)
Buildings and Improvements	(2,700,559)	(128,992)	-	(2,829,551)
Equipment	(429,463)	(17,308)	-	(446,771)
Infrastructure	(2,996,694)	(167,747)	-	(3,164,441)
Subtotal	<u>(6,489,373)</u>	<u>(315,914)</u>	<u>-</u>	<u>(6,805,287)</u>
Net Capital Assets Being Depreciated	<u>5,793,415</u>	<u>(291,934)</u>	<u>-</u>	<u>5,501,481</u>
Business-Type Activities Capital Assets–Net of Depreciation	<u>\$ 5,846,804</u>	<u>\$ (167,233)</u>	<u>\$ -</u>	<u>\$ 5,679,571</u>

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

<u>Governmental Activities</u>	
General Government	\$ 46,125
Public Safety	98,906
Public Works	8,970
Recreation and Culture	18,746
Internal Service Funds	180,376
Total Governmental Activities	<u>\$ 353,123</u>
 <u>Business-Type Activities</u>	
Sewer	\$ 262,414
Water	53,500
Total Business-Type Activities	<u>\$ 315,914</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 4. CAPITAL ASSETS (Continued)

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 124,626	\$ -	\$ -	\$ 124,626
Capital Assets Being Depreciated				
Land Improvements	294,632	24,960	-	319,592
Less Accumulated Depreciation for Land Improvements	(57,110)	(15,109)	-	(72,219)
Net Capital Assets Being Depreciated	237,522	9,851	-	247,373
DDA Capital Assets–Net of Depreciation	\$ 362,148	\$ 9,851	\$ -	\$ 371,999

Activity for the Local Development Finance Authority for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated				
Land Improvements	\$ -	\$ 77,136	\$ -	\$ 77,136
Less Accumulated Depreciation for Land Improvements	-	(2,828)	-	(2,828)
LDFA Capital Assets–Net of Depreciation	\$ -	\$ 74,308	\$ -	\$ 74,308

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 4. CAPITAL ASSETS (Continued)

Construction Commitments

The City had an active construction project related to the State Street Utility Relocation and Replacement as of June 30, 2009. The commitment for the project is financed with water and sewer revenues. At year end, the City's commitments with contractors related to this project are as follows:

<u>Purpose</u>	<u>Contract Amount</u>	<u>Expended Amount</u>	<u>Remaining Commitment</u>
State Street Utility Relocation	\$ 50,400	\$ 17,299	\$ 33,101
State Street Utility Replacement	136,518	69,588	66,930
Total	<u>\$ 186,918</u>	<u>\$ 86,887</u>	<u>\$ 100,031</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Advance to Other Funds</u>	<u>Fund</u>	<u>Advance from Other funds</u>
General	<u>\$ 172,000</u>	Mobile Equipment	<u>\$ 172,000</u>

The outstanding advance between funds is an interfund loan for the cost of the DPW Garage addition. Interest is paid at 2.58%.

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 250,831	General	\$ 28,000
Cemetery	28,000	Local Street	116,000
Major Street	24,000	Fire Department	100,616
Fire Department	19,810	Hatton Township Landfill	28,500
		Public Safety	49,525
	<u>\$ 322,641</u>		<u>\$ 322,641</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 6. LONG-TERM DEBT

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

Bond and contractual agreements can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
Capital Lease	6.82%	2008	\$ 35,242	\$ (35,242)	\$ -	\$ -
Installment purchase	3.89%	2010	81,000	(27,000)	54,000	27,000
2004 General Obligation Limited Tax Bonds	4.50%	2034	745,000	(16,000)	729,000	16,000
Installment purchase		2012	<u>116,322</u>	<u>(26,612)</u>	<u>89,710</u>	<u>27,790</u>
			<u>\$ 977,564</u>	<u>\$ (104,854)</u>	<u>\$ 872,710</u>	<u>\$ 70,790</u>
Business-Type Activities						
Sewer Revenue Bonds	5.00%	2030	\$ 379,000	\$ (4,000)	\$ 375,000	\$ 8,000
2002 General Obligation Limited Tax Bonds	2.50 to 4.125%	2010	320,000	(320,000)	-	-
Contract Payable	4.00 to 5.85%	2021	405,000	(20,000)	385,000	20,000
2000 General Obligation Limited Tax Bonds	4.95 to 5.55%	2018	200,000	(25,000)	175,000	25,000
2000 General Obligation Limited Tax Bonds	4.75 to 5.55%	2015	165,000	(25,000)	140,000	25,000
Contract Payable	4.00 to 5.85%	2021	<u>350,000</u>	<u>(25,000)</u>	<u>325,000</u>	<u>25,000</u>
			<u>\$ 1,819,000</u>	<u>\$ (419,000)</u>	<u>\$ 1,400,000</u>	<u>\$ 103,000</u>
Component Units						
1990 DDA Bonds	6.10 to 7.45%	2010	\$ 45,000	\$ (20,000)	\$ 25,000	\$ 25,000
1994 DDA Bonds	5.25 to 6.40%	2010	75,000	(35,000)	40,000	40,000
2006 DDA Bonds	3.85 to 4.55 %	2024	440,000	(15,000)	425,000	17,000
1998 Contract Payable	4.05 to 5.10%	2012	<u>290,000</u>	<u>(50,000)</u>	<u>240,000</u>	<u>55,000</u>
			<u>\$ 850,000</u>	<u>\$ (120,000)</u>	<u>\$ 730,000</u>	<u>\$ 137,000</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 6. LONG-TERM DEBT (Continued)

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

Year Ended June 30	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 70,790	\$ 38,205	\$ 103,000	\$ 74,419	\$ 137,000	\$ 32,860
2011	73,021	35,159	108,000	68,813	79,000	24,850
2012	47,306	32,059	115,000	63,025	81,000	21,040
2013	21,593	30,384	110,000	56,813	86,000	17,028
2014	19,000	29,520	112,000	50,850	22,000	14,505
2015-2019	110,000	133,200	405,000	173,513	125,000	57,854
2020-2024	140,000	104,580	286,000	72,236	162,000	27,487
2025-2029	174,000	68,535	130,000	28,250	38,000	865
2030-2034	217,000	23,805	31,000	1,550	-	-
	<u>\$ 872,710</u>	<u>\$ 495,447</u>	<u>\$ 1,400,000</u>	<u>\$ 589,469</u>	<u>\$ 730,000</u>	<u>\$ 196,489</u>

NOTE 7. SEGMENT INFORMATION

The City has issued bonds to finance sewer and water system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	Sewer	Water
Assets		
Current Assets	\$ 879,902	\$ 444,378
Restricted Assets	25,000	-
Capital Assets	4,381,797	1,297,774
Total Assets	<u>5,286,699</u>	<u>1,742,152</u>
Liabilities		
Current Liabilities	208,935	45,337
Noncurrent Liabilities	997,000	300,000
Total Liabilities	<u>1,205,935</u>	<u>345,337</u>
Net Assets		
Invested in Capital Assets	3,306,797	972,774
Restricted	25,000	-
Unrestricted	748,967	424,041
Total Net Assets	<u>\$ 4,080,764</u>	<u>\$ 1,396,815</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 7. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Sewer	Water
Operating Revenues	\$ 843,677	\$ 363,169
Depreciation Expense	(262,414)	(53,500)
Other Operating Expenses	(742,308)	(487,206)
Operating Income (Loss)	(161,045)	(177,567)
Nonoperating Revenue (Expense)		
Interest Earnings	35,857	17,419
Interest Expense	(65,580)	(18,893)
Other Income and Transfers	12,593	133,713
Change in Net Assets	(178,175)	(45,328)
Beginning Net Assets, As Restated	4,258,939	1,442,143
Total Net Assets	<u>\$ 4,080,764</u>	<u>\$ 1,396,815</u>

Condensed Statement of Cash Flows:

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 222,848	\$ (126,085)
Noncapital Financing Activities	-	132,081
Capital and Related Financing Activities	(521,120)	(50,659)
Investing Activities	279,479	48,648
Net Increase (Decrease)	(18,793)	3,985
Beginning Cash and Cash Equivalents	49,178	131
Ending Cash and Cash Equivalents	<u>\$ 30,385</u>	<u>\$ 4,116</u>

NOTE 8. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool program, which operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 9. DEFERRED COMPENSATION PLAN

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

A summary of the plan's investment activity for the year ended June 30, 2009, follows:

Balance – July 1, 2008	\$	367,375
Employee Contributions		40,378
Transfers		54,123
Current Withdrawals		(167,344)
Interest and Market Gains		(51,947)
Adjustments/Fees		(1,377)
Balance – June 30, 2009	<u>\$</u>	<u>241,208</u>

NOTE 10. EMPLOYEES' RETIREMENT PLAN

Plan Description--The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to:

Municipal Employee Retirement Systems of Michigan
447 North Canal Street
Lansing, Michigan 48917
(517) 622-4401

Funding Policy--The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment, for the year ended December 31, 2008, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 10. EMPLOYEES' RETIREMENT PLAN (Continued)

Annual Pension Costs—For the year ended June 30, 2009, the City's annual pension contribution was equal to \$196,281, and employee contributions totaled \$49,320. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increase ranging from 0.0% to 4.16%; and 3) various mortality rates, retirement rates and withdrawal rates for members based on experience studies.

Three year trend information as of December 31, 2008 follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Pension Cost	\$ 196,281	\$ 122,228	\$ 111,674
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	6,593,718	6,037,565	5,282,811
Actuarial Value of Assets	4,711,155	4,513,741	4,286,101
Unfunded (Overfunded) AAL	1,882,563	1,523,824	996,710
Funded Percentage	71%	75%	81%
Covered Payroll	1,053,985	1,060,274	987,420
UAAL as a Percentage of Covered Payroll	179%	144%	101%

NOTE 11. CONTINGENT LIABILITIES

The City is a defendant in various legal actions in which plaintiffs seek damages of indeterminable amounts, which may exceed insurance coverage where applicable. Litigation is subject to many uncertainties, and the outcome of individual matters cannot be predicted. Accordingly, a reasonable range of liability to the City pertaining to these matters cannot be determined. Management has taken steps to protect the City and believes any liability resulting from cases in which it is involved will not materially affect its financial position.

NOTE 12. LANDFILL POST-CLOSURE CARE

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

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 12. LANDFILL POST-CLOSURE CARE (Continued)

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

In a subsequent meeting with the City, the State Attorney General's Office has proposed a plan to limit the City's future liability in respect to the landfill, wherein the City would contribute \$230,000 to be held in perpetuity in a designated and agreed-upon, third-party escrow account to defray any future costs and litigation ensuing from contamination caused by the landfill. During the year ended June 30, 2009, the City invested \$29,000 in a certificate of deposit with Firstbank-Clare as the third of eight required contributions and also established the Hatton Township Landfill Fund to account for this investment.

The landfill is no longer accepting solid waste. In accordance with Governmental Accounting Standards Board Statement No. 18, "Municipal Solid Waste Landfill Closure and Post-Closure Care Costs," management of the City has estimated the future post-closure costs expected to be incurred associated with the monitoring and the maintenance of the landfill. Future costs will be the responsibility of the City. The City is required to participate in an annual monitoring program of the landfill at an estimated cost of approximately \$25,000 until such time that scheduled sampling supported the elimination of the monitoring program. Any liability related to any other costs, which may possibly be incurred, cannot be estimated at this time and is not included in management's estimated liability. The estimated liability for expected post-closure costs as of June 30, 2009 is \$256,310.

NOTE 13. SUBSEQUENT EVENTS

In June 2009, the City approved the construction of the Clare Municipal Airport T-Hangar Project. The asphalt portion of the project was awarded to Central Asphalt at a cost not-to-exceed \$109,082 and the construction portion of the project was awarded to JR Heineman & Sons at a cost not-to-exceed \$254,000. In November 2009, the City applied for a United States Department of Agriculture loan in the amount of \$3,081,000 to be used for sanitary sewer improvements and to refinance \$750,000 of outstanding debt. The project is slated to commence in fiscal year 2009-2010.

The City has evaluated subsequent events and transactions for potential recognition or disclosure through November 30, 2009, the date these financial statements were available to be issued.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 14. RESTATEMENTS

During the year ended June 30, 2009, the City determined that the special assessment levy should have been recognized as revenue, rather than being deferred to future years in the Sewer and Water Funds.

As a result, beginning net assets of the Sewer and Water funds were restated as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Net assets, June 30, 2008, as originally reported	\$ 4,035,418	\$ 1,419,337
Adjustments:		
Recognition of special assessments receivable	<u>223,521</u>	<u>22,806</u>
Net assets, June 30, 2008, as restated	<u>\$ 4,258,939</u>	<u>\$ 1,442,143</u>

During the year ended June 30, 2009, the City determined that the entire cost of a vehicle had not been recorded at June 30, 2008.

As a result, beginning net assets of the Mobile Equipment Internal Service Fund were restated as follows:

Net assets, June 30, 2008, as originally reported	\$ 612,869
Adjustments:	
Additional cost of capital asset	<u>4,800</u>
Net assets, June 30, 2008, as restated	<u>\$ 617,669</u>

During the year ended June 30, 2009, the City determined that it was necessary to make certain reclassifications and corrections of amounts reported in the financial statements for the year ended June 30, 2008, as follows: (a) Internal Service Fund activity allocable to business-type activities was re-classified from governmental activities in the government-wide financial statements for the year ended June 30, 2008; (b) the special assessment levy was recognized as revenue, rather than being deferred to future years in the Sewer and Water Funds in the Governmental-wide financial statements; (c) correction of an error in the amount of the capital assets that were reported in the Governmental Activities; and (d) the City determined that a liability should have been recorded for the landfill post-closure liability in the Governmental Activities column.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE 14. RESTATEMENTS (Continued)

As a result, beginning net assets of the governmental and business-type activities were restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets, June 30, 2008, as originally reported	\$ 7,394,142	\$ 5,454,755
Adjustments:		
Allocation of Internal Service Funds	(285,703)	285,703
Recognition of special assessments receivable	133,363	246,327
Error in capital assets reported value	189,716	-
Landfill post-closure liability	(312,919)	-
Net assets, June 30, 2008, as restated	<u>\$ 7,118,599</u>	<u>\$ 5,986,785</u>

During the year ended June 30, 2009, the City determined that the Downtown Development Authority's capital assets had not been properly stated in the government-wide financial statements for the year ended June 30, 2008.

As a result, beginning net assets of the component unit were restated as follows:

Net assets (deficit), June 30, 2008, as originally reported	\$ 160,098
Adjustments:	
DDA capital assets adjustment	(235,271)
Net assets (deficit), June 30, 2008, as restated	<u>\$ (75,173)</u>

NOTE 15. NEW PRONOUNCEMENTS

The Governmental Accounting Standards has recently issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints upon the use of the resources reported in governmental funds. The new statement identifies those fund balance amounts that are nonspendable, restricted, committed, assigned and unassigned, which are based upon the relative strengths of the constraints that control how specific amounts can be spent. The new pronouncement is effective for the year ending June 30, 2011. The City has not determined the affect the implementation of this statement will have on its financial statements.

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes and related fees	\$ 1,582,210	\$ 1,582,210	\$ 1,566,242	\$ (15,968)
Licenses and permits	32,525	32,525	24,545	(7,980)
Federal aid	1,157,000	1,157,000	195,456	(961,544)
State aid	428,000	428,000	399,001	(28,999)
Charges for services	358,655	408,655	459,321	50,666
Interest earnings	38,050	38,050	46,415	8,365
Rents and royalties	19,250	19,250	37,377	18,127
Fines and forfeitures	12,500	12,500	16,310	3,810
Special assessments	20,000	20,000	20,091	91
Donations and contributions	4,500	4,500	8,651	4,151
Sale of assets	-	-	-	-
Miscellaneous	8,000	8,000	18,163	10,163
Total revenues	<u>3,660,690</u>	<u>3,710,690</u>	<u>2,791,572</u>	<u>(919,118)</u>
EXPENDITURES				
General Government:				
City commission	30,851	51,351	49,505	1,846
City manager	115,164	117,914	116,103	1,811
Assessor	37,930	38,530	38,264	266
Clerk	108,084	120,554	118,862	1,692
Elections	3,500	4,700	4,519	181
Board of review	1,511	1,111	707	404
Cemetery	64,801	67,411	66,317	1,094
Buildings and grounds	43,913	70,928	68,388	2,540
Fiscal services	105,809	109,929	108,941	988
All other general government	48,000	65,650	65,318	332
Public Safety:				
Police department	895,651	871,801	829,782	42,019
Building inspection and regulation activities	60,087	55,587	48,374	7,213
Public Works:				
Solid waste	158,956	171,256	168,132	3,124
Landfill closure	26,616	36,551	28,109	8,442
Public works	49,649	51,649	43,745	7,904
Drains	10,500	500	199	301
Street lights	70,800	83,000	81,826	1,174
Community Development:				
Planning and zoning	22,250	24,450	21,018	3,432
Recreation and Culture:				
Parks and recreation	232,554	268,879	265,793	3,086
Airport	170,458	226,231	219,434	6,797
Capital Outlay:				
General government	10,000	-	-	-
Recreation and culture	1,214,000	1,239,175	217,566	1,021,609
Total expenditures	<u>3,481,084</u>	<u>3,677,157</u>	<u>2,560,902</u>	<u>1,116,255</u>
Excess (deficiency) of revenues over expenditures	<u>179,606</u>	<u>33,533</u>	<u>230,670</u>	<u>197,137</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	73,000	73,000	28,000	(45,000)
Transfers out	(251,304)	(273,981)	(250,831)	23,150
Total other financing sources (uses)	<u>(178,304)</u>	<u>(200,981)</u>	<u>(222,831)</u>	<u>(21,850)</u>
Net change in fund balances	1,302	(167,448)	7,839	175,287
Fund balances-beginning	947,242	947,242	947,242	-
Fund balances-ending	<u>\$ 948,544</u>	<u>\$ 779,794</u>	<u>\$ 955,081</u>	<u>\$ 175,287</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT FUND
For the Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Charges for services	\$ 180,412	\$ 180,412	\$ 186,727	\$ 6,315
Interest earnings	2,000	2,000	5,423	3,423
Donations and contributions	-	-	2,142	2,142
Miscellaneous	-	-	2,910	2,910
Total revenues	<u>182,412</u>	<u>182,412</u>	<u>197,202</u>	<u>14,790</u>
EXPENDITURES				
Fire operations	265,407	265,371	175,695	89,676
Capital outlay	125,000	125,000	124,750	250
Debt service				
Principal	62,242	62,242	62,242	-
Interest and fiscal charges	5,554	5,572	5,572	-
Total expenditures	<u>458,203</u>	<u>458,185</u>	<u>368,259</u>	<u>89,926</u>
Excess (deficiency) of revenues over expenditures	<u>(275,791)</u>	<u>(275,773)</u>	<u>(171,057)</u>	<u>104,716</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,616	100,616	100,616	-
Transfers out	(19,792)	(19,810)	(19,810)	-
Total other financing sources (uses)	<u>80,824</u>	<u>80,806</u>	<u>80,806</u>	<u>-</u>
Net change in fund balances	(194,967)	(194,967)	(90,251)	104,716
Fund balances-beginning	<u>203,531</u>	<u>203,531</u>	<u>203,531</u>	<u>-</u>
Fund balances-ending	<u>\$ 8,564</u>	<u>\$ 8,564</u>	<u>\$ 113,280</u>	<u>\$ 104,716</u>

CITY OF CLARE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Special Revenue					Debt Service	Capital Projects		Permanent	Total
	Major Street	Local Stree	Sidewalk Replacement	Drug Forfeiture	Hatton Township Landfill	Public Safety	Four Street Parking	Facade Improvement	Cemetery Perpetual Care	Nonmajor Governmental Funds
ASSETS										
Cash and cash equivalents	\$ 3,257	\$ 2,797	\$ 1,320	\$ -	\$ -	\$ -	\$ -	\$ 31,062	\$ 4,022	\$ 42,458
Cash and investments held by trustee	-	-	-	-	86,000	-	-	-	-	86,000
Investments	40,000	15,000	35,000	-	-	-	-	-	270,000	360,000
Accrued interest receivable	444	166	388	-	-	-	-	-	2,995	3,993
Assessments receivable, net	8,512	45,960	3,986	-	-	-	-	-	-	58,458
Due from other governmental units	24,867	10,602	-	-	-	-	-	14,375	-	49,844
Prepaid items	3,217	5,187	263	-	-	-	-	-	-	8,667
Total assets	<u>\$ 80,297</u>	<u>\$ 79,712</u>	<u>\$ 40,957</u>	<u>\$ -</u>	<u>\$ 86,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,437</u>	<u>\$ 277,017</u>	<u>\$ 609,420</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 3,862	\$ 3,093	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,437	\$ -	\$ 52,392
Accrued expenses	2,294	3,503	182	-	-	-	-	-	-	5,979
Deferred revenue	8,512	45,960	3,986	-	-	-	-	-	-	58,458
Total liabilities	<u>14,668</u>	<u>52,556</u>	<u>4,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,437</u>	<u>-</u>	<u>116,829</u>
Fund balances:										
Reserved for prepaid items	3,217	5,187	263	-	-	-	-	-	-	8,667
Reserved for landfill postclosure care	-	-	-	-	86,000	-	-	-	-	86,000
Unreserved and undesignated	62,412	21,969	36,526	-	-	-	-	-	277,017	397,924
Total fund balances	<u>65,629</u>	<u>27,156</u>	<u>36,789</u>	<u>-</u>	<u>86,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>277,017</u>	<u>492,591</u>
Total liabilities and fund balances	<u>\$ 80,297</u>	<u>\$ 79,712</u>	<u>\$ 40,957</u>	<u>\$ -</u>	<u>\$ 86,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,437</u>	<u>\$ 277,017</u>	<u>\$ 609,420</u>

CITY OF CLARE
COMBINING STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	<u>Major Street</u>	<u>Local Stree</u>	<u>Special Revenue Sidewalk Replacement</u>	<u>Drug Forfeiture</u>	<u>Hatton Township Landfill</u>	<u>Debt Service Public Safety</u>	<u>Capital Projects Four Street Parking</u>	<u>Facade Improvement</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total Governmental Funds</u>
REVENUES										
Property taxes and related fees	\$ -	\$ 62,517	\$ 20,829	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,346
Federal aid	-	-	-	-	-	-	-	14,375	-	14,375
State aid	248,756	73,547	-	-	-	-	-	-	-	322,303
Charges for services	-	-	-	-	-	-	-	-	15,650	15,650
Interest earnings	1,078	1,085	987	13	-	-	-	224	13,805	17,192
Special assessments, net	1,613	14,848	7,048	-	-	-	-	-	-	23,509
Donations and contributions	-	-	-	-	-	-	-	28,750	-	28,750
Miscellaneous	1,602	3,638	-	-	-	-	-	-	-	5,240
Total revenues	<u>253,049</u>	<u>155,635</u>	<u>28,864</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,349</u>	<u>29,455</u>	<u>510,365</u>
EXPENDITURES										
Public safety	-	-	-	2,467	-	-	-	-	-	2,467
Public works	187,286	284,303	26,430	-	-	-	-	-	-	498,019
Community development	-	-	-	-	-	-	-	83,456	-	83,456
Debt service										
Principal	-	-	-	-	-	16,000	-	-	-	16,000
Interest and fiscal charges	-	-	-	-	-	33,525	-	-	-	33,525
Total expenditures	<u>187,286</u>	<u>284,303</u>	<u>26,430</u>	<u>2,467</u>	<u>-</u>	<u>49,525</u>	<u>-</u>	<u>83,456</u>	<u>-</u>	<u>633,467</u>
Excess (deficiency) of revenues over expenditures	<u>65,763</u>	<u>(128,668)</u>	<u>2,434</u>	<u>(2,454)</u>	<u>-</u>	<u>(49,525)</u>	<u>-</u>	<u>(40,107)</u>	<u>29,455</u>	<u>(123,102)</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	-	116,000	-	-	28,500	49,525	-	-	-	194,025
Transfers out	(24,000)	-	-	-	-	-	-	-	(28,000)	(52,000)
Total other financing sources (uses)	<u>(24,000)</u>	<u>116,000</u>	<u>-</u>	<u>-</u>	<u>28,500</u>	<u>49,525</u>	<u>-</u>	<u>-</u>	<u>(28,000)</u>	<u>142,025</u>
Net change in fund balances	41,763	(12,668)	2,434	(2,454)	28,500	-	-	(40,107)	1,455	18,923
Fund balances-beginning	<u>23,866</u>	<u>39,824</u>	<u>34,355</u>	<u>2,454</u>	<u>57,500</u>	<u>-</u>	<u>-</u>	<u>40,107</u>	<u>275,562</u>	<u>473,668</u>
Fund balances-ending	<u>\$ 65,629</u>	<u>\$ 27,156</u>	<u>\$ 36,789</u>	<u>\$ -</u>	<u>\$ 86,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,017</u>	<u>\$ 492,591</u>

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUNDS
June 30, 2009

	<u>Data Processing</u>	<u>Mobile Equipment</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,719	\$ 18,988	\$ 23,707
Investments	80,000	-	80,000
Accounts receivable, net	-	1,728	1,728
Accrued interest receivable	887	-	887
Inventory	-	11,243	11,243
Prepaid items	734	3,240	3,974
Total current assets	<u>86,340</u>	<u>35,199</u>	<u>121,539</u>
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	363,176	363,176
Equipment, net	29,618	111,721	141,339
Vehicles, net	-	231,095	231,095
Total noncurrent assets	<u>29,618</u>	<u>790,992</u>	<u>820,610</u>
Total assets	<u>115,958</u>	<u>826,191</u>	<u>942,149</u>
LIABILITIES			
Accounts payable	819	5,376	6,195
Accrued expenses	951	2,367	3,318
Advances from other funds	-	172,000	172,000
Bonds and contracts payable	-	27,790	27,790
Total current liabilities	<u>1,770</u>	<u>207,533</u>	<u>209,303</u>
Noncurrent liabilities			
Bonds and contracts payable	-	61,920	61,920
Total noncurrent liabilities	<u>-</u>	<u>61,920</u>	<u>61,920</u>
Total liabilities	<u>1,770</u>	<u>269,453</u>	<u>271,223</u>
NET ASSETS			
Invested in capital assets, net of related debt	29,618	701,282	730,900
Unrestricted (deficit)	84,570	(144,544)	(59,974)
Total net assets	<u>\$ 114,188</u>	<u>\$ 556,738</u>	<u>\$ 670,926</u>

CITY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2009

	<u>Data Processing</u>	<u>Mobile Equipment</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 87,520	\$ 395,707	\$ 483,227
Miscellaneous	11	7,223	7,234
Total operating revenues	<u>87,531</u>	<u>402,930</u>	<u>490,461</u>
OPERATING EXPENSES			
Salaries and wages	15,642	55,673	71,315
Payroll taxes	1,115	4,029	5,144
Employee benefits	3,150	22,056	25,206
Retirement	2,636	9,401	12,037
Supplies	6,507	64,766	71,273
Professional and contracted services	20,258	11,198	31,456
Insurance	126	18,290	18,416
Telephone and communications	-	1,360	1,360
Professional development	-	256	256
Utilities	-	21,730	21,730
Repair and maintenance	9,058	77,787	86,845
Miscellaneous	-	120	120
Depreciation	14,596	165,780	180,376
Total operating expenses	<u>73,088</u>	<u>452,446</u>	<u>525,534</u>
Operating income (loss)	<u>14,443</u>	<u>(49,516)</u>	<u>(35,073)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest earnings	3,156	209	3,365
Interest expense	-	(12,184)	(12,184)
Gain on sale of assets	-	560	560
Total nonoperating revenue (expenses)	<u>3,156</u>	<u>(11,415)</u>	<u>(8,259)</u>
Changes in net assets	17,599	(60,931)	(43,332)
Total net assets-beginning , as restated	<u>96,589</u>	<u>617,669</u>	<u>714,258</u>
Total net assets-ending	<u>\$ 114,188</u>	<u>\$ 556,738</u>	<u>\$ 670,926</u>

CITY OF CLARE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2009

	Data Processing	Mobile Equipment	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 87,531	\$ 403,016	\$ 490,547
Payments to suppliers	(36,580)	(181,648)	(218,228)
Payments to employees	(22,041)	(91,470)	(113,511)
Net cash provided by operating activities	<u>28,910</u>	<u>129,898</u>	<u>158,808</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases and construction of capital assets	(27,571)	(51,434)	(79,005)
Proceeds from the sale of capital assets	-	560	560
Repayments of advances from other funds	-	(43,000)	(43,000)
Principal paid on capital debt	-	(26,612)	(26,612)
Interest paid on capital debt	-	(12,184)	(12,184)
Net cash used by capital and related financing activities	<u>(27,571)</u>	<u>(132,670)</u>	<u>(160,241)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(5,000)	-	(5,000)
Interest earnings	2,269	209	2,478
Net cash provided (used) by investing activities	<u>(2,731)</u>	<u>209</u>	<u>(2,522)</u>
Net increase in cash and cash equivalents	(1,392)	(2,563)	(3,955)
Balances-beginning of the year	6,111	21,551	27,662
Balances-end of the year	<u>\$ 4,719</u>	<u>\$ 18,988</u>	<u>\$ 23,707</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 14,443	\$ (49,516)	\$ (35,073)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	14,596	165,780	180,376
Change in assets and liabilities:			
Receivables, net	-	86	86
Inventory	-	(6,926)	(6,926)
Prepaid items	(608)	17,004	16,396
Accounts payable	(23)	3,781	3,758
Accrued expenses	502	(311)	191
Net cash provided by operating activities	<u>\$ 28,910</u>	<u>\$ 129,898</u>	<u>\$ 158,808</u>

CITY OF CLARE
COMBINING BALANCE SHEET - COMPONENT UNITS
June 30, 2009

	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 121,418	\$ 272,581	\$ 393,999
Accounts receivable	25,956	-	25,956
Prepaid items	350	-	350
Total assets	<u>147,724</u>	<u>272,581</u>	<u>420,305</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	6,847	-	6,847
Accrued expenses	212	-	212
Due to other governmental units	33,366	-	33,366
Total liabilities	<u>40,425</u>	<u>-</u>	<u>40,425</u>
Fund balances:			
Unreserved and undesignated	<u>107,299</u>	<u>272,581</u>	<u>379,880</u>
Total fund balances	<u>107,299</u>	<u>272,581</u>	<u>379,880</u>
Total liabilities and fund balances	<u>\$ 147,724</u>	<u>\$ 272,581</u>	<u>\$ 420,305</u>

CITY OF CLARE
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPONENT UNITS
For the Year Ended June 30, 2009

	Downtown Development Authority	Local Development Finance Authority	Total
REVENUES			
Property taxes and related fees	\$ 201,788	\$ -	\$ 201,788
Interest earnings	1,054	2,835	3,889
Donations and contributions	25,956	-	25,956
Reimbursements	2,951	-	2,951
Miscellaneous	9,133	-	9,133
Total revenues	<u>240,882</u>	<u>2,835</u>	<u>243,717</u>
EXPENDITURES			
Community development	159,740	77,156	236,896
Debt service:			
Principal	70,000	50,000	120,000
Interest and related fees	26,522	13,643	40,165
Total expenditures	<u>256,262</u>	<u>140,799</u>	<u>397,061</u>
Net change in fund balances	(15,380)	(137,964)	(153,344)
Fund balances-beginning	<u>122,679</u>	<u>410,545</u>	<u>533,224</u>
Fund balances-ending	<u>\$ 107,299</u>	<u>\$ 272,581</u>	<u>\$ 379,880</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clare (the "City"), Clare and Isabella Counties, Michigan, as of and for the year ended June 30, 2009, which collectively comprise the City of Clare's basic financial statements and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

1) Recording, Processing and Summarizing Accounting Data

- Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (e.g., maintaining internal books and records).
- Condition: For the year ended June 30, 2009, audit adjustments were required to adjust the capital assets to include all relevant assets (including infrastructure and construction in progress), to recognize accrued interest receivable, to recognize special assessments receivable, and to include all relevant accounts payable at year-end. The adjustments to the capital assets and to recognize the special assessments also required a restatement of the beginning net assets.
- Cause: The adjustments required to capital assets, interest receivable and payables were due to an oversight by the City. The adjustments to recognize the special assessments were caused by a re-examination of certain revenues and deferred liabilities during the audit.
- Effect: As a result of this condition, the aforementioned accounts were misstated on the City's records and required adjustments at the time of the audit.
- Recommendation: We recommend that the City review all subsidiary schedules and general ledger balances to ensure that no accounts are misstated at year-end.
- Management's Response: Management agrees with the recommendation proposed by its auditors and has adjusted closing procedures to ensure all year-end adjustments are identified and recorded.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we did not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

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

The City's written response to the finding identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Burnside & Long, P.C.

Midland, Michigan
November 30, 2009