



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014



Vredeveld Haefner LLC

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

October 3, 2014

Honorable Mayor and Members of the City Commission
City of East Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Uredewald Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of East Grand Rapids (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2014 fiscal year as follows:

- Completed road and infrastructure improvements of \$66,800 in the Major Street Fund and \$187,500 in the Local Street Fund.
- Infrastructure improvements of \$342,400 in the Water and Sewer Fund, which includes construction in progress for Lakeside Drive of \$304,400.
- In the Motor Pool Equipment Replacement Fund, \$78,300 was invested in various vehicle and equipment replacements.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Building Authority for which the City is financially accountable. There was no current year activity in the Building Authority.

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

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and major street special revenue fund which are considered to be major funds. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the general fund to demonstrate legal compliance.

Proprietary funds The City maintains one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operation. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes internal service funds to account for its motor pool and self insurance activities. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operation, which is considered to be a major fund of the City. Conversely, internal service funds are combined into a single, aggregate presentation in the proprietary fund financial statements.

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

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

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension and OPEB information and major fund budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$27,826,084 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$6,588,833	\$ 6,143,512	\$1,129,680	\$ 913,889	\$7,718,513	\$ 7,057,401
Long-term assets	23,732,900	25,008,259	9,245,087	9,368,743	32,977,987	34,377,002
Total assets	30,321,733	31,151,771	10,374,767	10,282,632	40,696,500	41,434,403
Liabilities						
Current liabilities	1,588,934	1,509,028	499,654	698,117	2,088,588	2,207,145
Long-term liabilities	10,634,510	10,967,635	147,318	251,351	10,781,828	11,218,986
Total liabilities	12,223,444	12,476,663	646,972	949,468	12,870,416	13,426,131
Net position						
Net investment in capital assets	12,765,265	13,705,874	8,993,735	8,971,146	21,759,000	22,677,020
Restricted	1,450,799	1,513,428	-	-	1,450,799	1,513,428
Unrestricted	3,882,225	3,455,806	734,060	362,018	4,616,285	3,817,824
Total net position	\$18,098,289	\$18,675,108	\$9,727,795	\$9,333,164	\$27,826,084	\$28,008,272

By far the largest portion of the City's net position in the amount of 78% reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of 5% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position in the amount of \$4,616,285, or 17%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position; for the government as a whole, governmental activities, and the business-type activities.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2014, was \$15,175,682 while total cost of all programs and services was \$15,052,836. This resulted in an increase in net position of \$122,846. The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$1,632,372	\$1,622,558	\$3,497,027	\$3,702,440	\$5,129,399	\$5,324,998
Operating grants and contributions	811,262	797,353	-	-	811,262	797,353
Capital grants and contributions	20,933	-	-	-	20,933	-
General revenues						
Property taxes	8,063,907	8,008,022	-	-	8,063,907	8,008,022
State shared revenues	897,733	864,849	-	-	897,733	864,849
Cable franchise fees	204,434	200,622	-	-	204,434	200,622
Investment earnings	24,221	29,132	416	162	24,637	29,294
Gain on sale of assets	23,377	87,537	-	-	23,377	87,537
Total revenues	11,678,239	11,610,073	3,497,443	3,702,602	15,175,682	15,312,675
Expenses						
Legislative	27,306	63,684	-	-	27,306	63,684
General government	1,725,598	2,201,093	-	-	1,725,598	2,201,093
Public safety	4,613,269	4,680,173	-	-	4,613,269	4,680,173
Public works	3,296,999	3,225,538	-	-	3,296,999	3,225,538
Culture and recreation	1,950,505	1,928,990	-	-	1,950,505	1,928,990
Other	-	-	-	-	-	-
Interest on long-term debt	322,593	365,894	-	-	322,593	365,894
Water and sewer	-	-	3,116,566	3,048,788	3,116,566	3,048,788
Total expenses	11,936,270	12,465,372	3,116,566	3,048,788	15,052,836	15,514,160
Increase (decrease) in net position						
before transfers	(258,031)	(855,299)	380,877	653,814	122,846	(201,485)
Transfers in (out)	(13,754)	-	13,754	-	-	-
Increase (decrease) in net position	(271,785)	(855,299)	394,631	653,814	122,846	(201,485)
Net position – beginning, as restated	18,370,074	19,530,407	9,333,164	8,679,350	27,703,238	28,209,757
Net position – ending	\$18,098,289	\$18,675,108	\$9,727,795	\$9,333,164	\$27,826,084	\$28,008,272

Governmental Activities The preceding table shows that the governmental activities decreased the City's net position by \$271,785 during this fiscal year. The decrease is the result of depreciation on capital assets and an increase in the other post-employment benefits liability during the year.

Business-type Activities Business-type activities increased the City's net position by \$394,631 during the year. Although charges for services decreased due to lower usage, there was a corresponding decrease in purchases of water and sewage treatment service. There was an overall increase in expenses due to increased maintenance and related supplies and wage and benefit allocations.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,452,004, an increase of \$345,695 from the prior year. This was primarily due to the increase in property values in the current year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, nonspendable fund balance of \$32,651 relates to prepaid assets, restricted fund balance of \$26,744 relates to public safety and committed fund balance of \$255,000 relates to future activities committed to by the Board. Unassigned fund balance represents \$2,671,837 of total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 27% of total general fund expenditures.

Proprietary funds The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's enterprise operation consists of the water and sewer fund which provides services to most residents and businesses of the City. This fund experienced an increase in net position of \$394,631 as discussed under business-type activities above.

Budgetary Highlights

Revenues in the General Fund were approximately \$10,427,900, which is 101% of the \$10,349,900 amended budgeted amount for the fiscal year. Property tax revenue was approximately \$7,627,600 or 100% collected of the original budget.

Expenditures in the General Fund were approximately \$10,063,000 or 97% of the amended budgeted amount of \$10,390,500. The budget was amended to use \$40,600 of fund balance for the year, however, the year end actual results will add \$364,811 into unrestricted fund balance which is made up of some postponed projects to be completed in 2014/2015 and various savings throughout various departments.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$32,977,987 (net of accumulated depreciation). Of this amount, \$23,732,900 was for its governmental activities and \$9,245,087 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Current year additions included vehicles, and several road projects.

Additional information on the City's capital assets can be found in Note 4 to the financial statements.

Long-term debt At the end of the current fiscal year, the City had total long-term debt outstanding of \$11,218,987. Of this amount, \$10,967,635 was for governmental activities while \$251,352 was for business-type activities.

The City's total long-term debt decreased by approximately \$657,000 during the current fiscal year as a result of payment of scheduled debt service requirements.

Additional information on the City's long-term debt can be found in Note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2015 fiscal year:

- Property taxes, which comprise 74.3% of the General Fund budget, were increased by 2.54% in the 2014/2015 budget. This is due to an overall assessed value increase of 5.14% and a taxable value increase of 3.60%.
- The 2014/2015 budget contains a property tax levy of 13.3119 mills, which is a reduction of 0.1467 mills from last year, which is the maximum available under the Headlee Amendment.
- The 2014/2015 budget contains a 2.0% cost of living increase for union and non-union employees.
- Increases in health insurance costs are expected and have been reflected in the 2014/2015 budget.
- The General Fund unrestricted fund balance for 2014/2015 is budgeted at 22.59% of expenditures including transfers.
- Water and sewer rates remained the same for the 2014/2015 budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, City of East Grand Rapids, 750 Lakeside Drive SE, East Grand Rapids, MI 49506.

BASIC FINANCIAL STATEMENTS

CITY OF EAST GRAND RAPIDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,129,679	\$ 259,919	\$ 1,389,598
Investments	4,819,895	325,291	5,145,186
Accounts receivable	147,334	499,826	647,160
Special assessments receivable	32,455	-	32,455
Internal balances	6,555	(6,555)	-
Due from other governments	308,806	-	308,806
Inventory	79,105	49,699	128,804
Prepaid and other assets	65,004	1,500	66,504
Capital assets			
Land	2,124,000	-	2,124,000
Construction in progress	89,429	304,391	393,820
Depreciable capital assets, net	21,519,471	8,940,696	30,460,167
Total assets	30,321,733	10,374,767	40,696,500
Liabilities			
Accounts payable	393,408	374,040	767,448
Accrued liabilities	403,131	6,427	409,558
Unearned revenue	19,730	-	19,730
Compensated absences	231,665	15,153	246,818
Noncurrent liabilities			
Net other post-employment benefits liability	207,875	-	207,875
Due within one year	541,000	104,034	645,034
Due in more than one year	10,426,635	147,318	10,573,953
Total liabilities	12,223,444	646,972	12,870,416
Net position			
Net investment in capital assets	12,765,265	8,993,735	21,759,000
Restricted for			
Major and local streets	1,398,101	-	1,398,101
Capital projects	25,954	-	25,954
Public safety	26,744	-	26,744
Unrestricted	3,882,225	734,060	4,616,285
Total net position	\$ 18,098,289	\$ 9,727,795	\$ 27,826,084

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 27,306	\$ -	\$ -	\$ -	\$ (27,306)
General government	1,725,598	255,234	-	20,933	(1,449,431)
Public safety	4,613,269	94,500	10,203	-	(4,508,566)
Public works	3,296,999	313,459	801,059	-	(2,182,481)
Recreation and culture	1,950,505	969,179	-	-	(981,326)
Interest on long-term debt	<u>322,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(322,593)</u>
Total governmental activities	<u>11,936,270</u>	<u>1,632,372</u>	<u>811,262</u>	<u>20,933</u>	<u>(9,471,703)</u>
Business-type activities					
Water and sewer	<u>3,116,566</u>	<u>3,497,027</u>	<u>-</u>	<u>-</u>	<u>380,461</u>
Total primary government	<u>\$ 15,052,836</u>	<u>\$ 5,129,399</u>	<u>\$ 811,262</u>	<u>\$ 20,933</u>	<u>\$ (9,091,242)</u>

(continued)

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (9,471,703)	\$ 380,461	\$ (9,091,242)
General revenues			
Property taxes	8,063,907	-	8,063,907
State shared revenues	897,733	-	897,733
Cable franchise fees	204,434	-	204,434
Unrestricted investment earnings	24,221	416	24,637
Gain on sale of fixed assets	23,377	-	23,377
Transfers - internal activities	(13,754)	13,754	-
Total general revenues and transfers	<u>9,199,918</u>	<u>14,170</u>	<u>9,214,088</u>
Change in net position	(271,785)	394,631	122,846
Net position, beginning of year, as restated	<u>18,370,074</u>	<u>9,333,164</u>	<u>27,703,238</u>
Net position, end of year	<u>\$ 18,098,289</u>	<u>\$ 9,727,795</u>	<u>\$ 27,826,084</u>

(concluded)

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

CITY OF EAST GRAND RAPIDS

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 764,038	\$ 107,849	\$ 131,683	\$ 1,003,570
Investments	2,357,421	600,900	555,438	3,513,759
Accounts receivable	115,679	-	-	115,679
Special assessment receivable	-	-	32,455	32,455
Due from other governments	196,535	81,521	30,750	308,806
Inventory	-	9,716	9,716	19,432
Prepaid items	32,651	-	-	32,651
Total assets	<u>\$ 3,466,324</u>	<u>\$ 799,986</u>	<u>\$ 760,042</u>	<u>\$ 5,026,352</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 294,644	\$ 11,660	\$ 40,457	\$ 346,761
Due to other funds	49,161	3,278	3,278	55,717
Accrued liabilities	116,557	6,536	6,513	129,606
Unearned revenue	19,730	-	-	19,730
Total liabilities	<u>480,092</u>	<u>21,474</u>	<u>50,248</u>	<u>551,814</u>
Deferred inflows of resources				
Unavailable receivables	-	-	22,534	22,534
Fund balances				
Nonspendable				
Inventory	-	9,716	9,716	19,432
Prepaid items	32,651	-	-	32,651
Restricted				
Streets	-	768,796	629,305	1,398,101
Public safety	26,744	-	-	26,744
Debt service	-	-	22,285	22,285
Committed				
Turf replacement	255,000	-	-	255,000
Assigned				
Capital projects	-	-	25,954	25,954
Unassigned	2,671,837	-	-	2,671,837
Total fund balances	<u>2,986,232</u>	<u>778,512</u>	<u>687,260</u>	<u>4,452,004</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,466,324</u>	<u>\$ 799,986</u>	<u>\$ 760,042</u>	<u>\$ 5,026,352</u>

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

CITY OF EAST GRAND RAPIDS

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2014

Fund balances - total governmental funds	\$ 4,452,004
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	2,124,000
Add - construction in progress	89,429
Add - capital assets (net of accumulated depreciation)	19,836,719
Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - special assessments deferred receivable	22,534
Certain expenditure are recognized in the fund when paid but are recognized in government-wide financial statement when due.	
Deduct - net other postemployment benefit liability	(207,875)
Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service funds	3,046,969
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(220,442)
Deduct - bonds payable	(10,967,635)
Deduct - accrued interest on bonds payable	(77,414)
Net position of governmental activities	<u>\$ 18,098,289</u>

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

CITY OF EAST GRAND RAPIDS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 7,627,663	\$ -	\$ 436,244	\$ 8,063,907
Intergovernmental revenues				
State	908,367	577,978	223,081	1,709,426
Licenses and permits	274,437	-	-	274,437
Charges for services	1,350,190	-	-	1,350,190
Fines	94,069	-	-	94,069
Special assessments	-	-	10,294	10,294
Rentals	117,679	-	-	117,679
Investment earnings	13,887	1,140	5,575	20,602
Miscellaneous	20,933	-	-	20,933
Total revenues	<u>10,407,225</u>	<u>579,118</u>	<u>675,194</u>	<u>11,661,537</u>
Expenditures				
Current				
Legislative	26,871	-	-	26,871
General government	1,387,485	-	-	1,387,485
Public safety	4,294,479	-	-	4,294,479
Public works	1,506,565	633,831	693,639	2,834,035
Culture and recreation	1,650,626	-	-	1,650,626
Debt service				
Principal	-	-	503,000	503,000
Interest	-	-	326,564	326,564
Capital outlay	197,019	-	68,255	265,274
Total expenditures	<u>9,063,045</u>	<u>633,831</u>	<u>1,591,458</u>	<u>11,288,334</u>
Revenues over (under) expenditures	<u>1,344,180</u>	<u>(54,713)</u>	<u>(916,264)</u>	<u>373,203</u>
Other financing sources (uses)				
Transfers in	20,631	409,637	883,984	1,314,252
Transfers out	(1,000,000)	(275,488)	(66,272)	(1,341,760)
Total other financing sources (uses)	<u>(979,369)</u>	<u>134,149</u>	<u>817,712</u>	<u>(27,508)</u>
Net changes in fund balances	364,811	79,436	(98,552)	345,695
Fund balances, beginning of year	<u>2,621,421</u>	<u>699,076</u>	<u>785,812</u>	<u>4,106,309</u>
Fund balances, end of year	<u>\$ 2,986,232</u>	<u>\$ 778,512</u>	<u>\$ 687,260</u>	<u>\$ 4,452,004</u>

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

CITY OF EAST GRAND RAPIDS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds **\$ 345,695**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	448,065
Deduct - depreciation expense	(1,498,660)
Deduct - net book value of disposed capital assets	(11,451)

Some receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(10,294)
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Bond or note proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add - principal payments on debt	503,000
Add - amortization of bond premium	7,876

Some 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.

Deduct - increase in compensated absences	(6,487)
Deduct - decrease in net other post-employment benefits asset	(33,308)
Deduct - increase in net other post-employment benefits liability	(207,875)
Add - decrease in accrued interest	3,971

Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

Add - increase in net position of the internal service funds	187,683
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Change in net position of governmental activities **\$ (271,785)**

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

CITY OF EAST GRAND RAPIDS

PROPRIETARY FUNDS STATEMENT OF NET POSITION

JUNE 30, 2014

	Enterprise Fund Water and Sewer	Governmental Activities Internal Service Funds
Assets		
Current assets		
Cash and pooled investments	\$ 259,919	\$ 126,109
Investments	325,291	1,306,136
Accounts receivable	499,826	31,655
Due from other funds	-	65,550
Prepaid and other assets	1,500	32,353
Inventory	49,699	59,673
Total current assets	1,136,235	1,621,476
Capital assets		
Construction in progress	304,391	-
Depreciable capital assets, net	8,940,696	1,682,752
Total assets	10,381,322	3,304,228
Liabilities		
Current liabilities		
Accounts payable	374,040	46,647
Accrued liabilities	6,427	196,111
Due to other funds	6,555	3,278
Compensated absences	15,153	11,223
Current portion of long-term debt	104,034	-
Total current liabilities	506,209	257,259
Long-term liabilities		
Bonds payable, net of current portion	147,318	-
Total liabilities	653,527	257,259
Net position		
Net investment in capital assets	8,993,735	1,682,752
Unrestricted	734,060	1,364,217
Total net position	\$ 9,727,795	\$ 3,046,969

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

CITY OF EAST GRAND RAPIDS

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenue		
Charges for services	\$ 3,433,920	\$ 2,110,044
Other	63,107	-
	<u>3,497,027</u>	<u>2,110,044</u>
Total operating revenue		
Operating expense		
Personnel services	572,860	186,413
Contractual services	30,101	355,406
Materials and supplies	1,101,922	250,100
Equipment	171,234	3,384
Claims	4,069	805,140
Administration	154,311	104,329
Depreciation	466,093	258,339
Miscellaneous	607,497	-
	<u>3,108,087</u>	<u>1,963,111</u>
Total operating expense		
Operating income (loss)	<u>388,940</u>	<u>146,933</u>
Non-operating revenue (expense)		
Gain on sale of fixed assets	-	23,377
Investment earnings	416	3,619
Interest expense	(8,479)	-
	<u>(8,063)</u>	<u>26,996</u>
Total non-operating revenue (expense)		
Income (loss) before transfers and contributions	<u>380,877</u>	<u>173,929</u>
Transfers in	13,754	13,754
Changes in net position	394,631	187,683
Net position, beginning of year, as restated	<u>9,333,164</u>	<u>2,859,286</u>
Net position, end of year	<u>\$ 9,727,795</u>	<u>\$ 3,046,969</u>

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 2,136,484
Receipts from customers and users	3,614,425	-
Payments to employees	(574,604)	(186,127)
Payments to suppliers	<u>(2,222,106)</u>	<u>(1,569,965)</u>
Net cash provided by (used in) operating activities	<u>817,715</u>	<u>380,392</u>
Cash flows from capital and related financing activities		
Interest expense	(8,479)	-
Principal paid on bonds	(146,245)	-
Proceeds on sale of capital assets	-	23,377
Acquisitions of capital assets	<u>(342,437)</u>	<u>(78,334)</u>
Net cash provided by (used in) capital and related financing activities	<u>(497,161)</u>	<u>(54,957)</u>
Cash flows from investing activities		
Net investment activity	(325,291)	(314,542)
Interest income	<u>416</u>	<u>3,619</u>
Net cash provided by (used in) investing activities	<u>(324,875)</u>	<u>(310,923)</u>
Net increase (decrease) in cash and pooled investments	9,433	28,266
Cash and pooled investments, beginning of year	<u>250,486</u>	<u>97,843</u>
Cash and pooled investments, end of year	<u>\$ 259,919</u>	<u>\$ 126,109</u>
Cash flows from operating activities		
Operating income (loss)	\$ 388,940	\$ 146,933
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	466,093	258,339
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	117,398	34,925
Due from other funds	-	(9,882)
Prepaid and other assets	(471)	1,259
Inventory	590	(7,356)
Accounts payable	(154,507)	11,253
Due to other funds	1,416	1,397
Accrued liabilities	(1,874)	(57,366)
Compensated absences	<u>130</u>	<u>890</u>
Net cash provided by (used in) operating activities	<u>\$ 817,715</u>	<u>\$ 380,392</u>

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION/BALANCE SHEET
JUNE 30, 2014

	Other Post-employment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 27,626
Investments	<u>1,210,423</u>	<u>-</u>
Total assets	1,210,423	<u>\$ 27,626</u>
Liabilities		
Due to other governmental units	<u>-</u>	<u>\$ 27,626</u>
Net position		
Held in trust for other post-employment benefits	<u>\$ 1,210,423</u>	

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Other Post-employment Benefit <u>Trust</u>
Additions	
Contributions:	
Employer	\$ 71,855
Stop loss reimbursement	402,494
Investment earnings	<u>96,755</u>
Total Additions	571,104
Deductions	
Benefits	<u>474,349</u>
Net increase	96,755
Net position, beginning of year	<u>1,113,668</u>
Net position, end of year	<u>\$ 1,210,423</u>

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Grand Rapids, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Unit

The Building Authority is governed by a board appointed by the City Commission. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its sole purpose is to finance and construct the City's public buildings. The Building Authority had no activity during the year.

Government-wide and Fund Financial Statements

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

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

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.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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, except for reimbursement-based grants, state shared revenue and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues 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 revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for repairs and equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services (including claims), administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the receipt and expenditure of fuel and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51.

The City reports the following major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services on a user charge basis.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for the accumulation and disbursement of resources for the construction of governmental fund capital assets.

The *Debt Service Funds* are used to account for resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Internal Service Funds* are used to account for equipment and vehicle purchases, repairs and maintenance and claims and benefits services provided to the City departments on a cost reimbursement basis.

The *Other Post-employment Benefits Trust Fund* is used to account for the operations of the City Other Postemployment Benefits Plan which provides other postemployment benefits to the City's employees.

The *Agency Fund* is used to account for the collection and disbursement of funds that are collected on behalf of outside governments or other parties.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general and special revenue funds. General and special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By June 30th the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriations lapse at fiscal year-end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditure budgets of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Commission. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations for each fund. The Commission approves the annual budget at the fund level. Supplemental appropriations were necessary during the year.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal at any time similar to a demand deposit account.

Investments

Investments are stated at fair value at the balance sheet date.

City investment policy allows for all investments authorized by State statutes. State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. The City OPEB plan is also allowed to invest in corporate debt and equity securities.

Receivables/Due from Other Governments

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial to the financial statements.

Special Assessments Receivable

Special assessments receivable consist of long-term receivables from customers and benefited parties for various infrastructure improvement projects.

Prepaid and Other Assets

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid and other assets in both the government-wide and fund financial statements.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

Inventory

All inventories are valued at original cost using the first-in/first-out (FIFO) method. Inventory represents parts, materials, and supplies utilized in the various City operations.

Capital Assets

Capital assets, which include land, construction in progress, buildings, vehicles and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns 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 two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water and Sewage Systems	20-50
Buildings and improvements	10-35
Vehicles and equipment	4-20
Infrastructure	5-20

Unearned/Unavailable Revenue

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and *unearned revenue* for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue reported in the funds were as follows:

Unearned revenue - fees received in advance	\$19,730
Unavailable revenue - special assessments	22,534

Compensated Absences

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net position of the individual enterprise funds. Compensated absences reported for governmental activities are primarily liquidated from general fund resources. The balances of compensated absences are all considered current liabilities at year-end.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as an other financing use. Issuance costs are reported as expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, *unavailable revenue* from special assessments receivable is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

Governmental funds report fund balance in the following five categories:

1. Non-spendable – the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by management as authorized by the governing board.
5. Unassigned – is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed by resolution of the City Commission. The City Commission has delegated the authority to assign fund balance to the City Manager.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resources as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 14. Tax bills include the City's own property taxes and taxes billed on behalf of other taxing units. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Taxes collected on behalf of other taxing units are accounted for in the agency funds. Property taxes levied in July of each year are recognized as revenue in the year in which they are levied.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. Changes between enterprise funds and other functions of the City are not reimbursements because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Remaining transactions are generally reflected as transfers.

2. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$1,389,598	\$ 27,626	\$1,417,224
Investments	5,145,186	1,210,423	6,355,609
	<u>\$6,534,784</u>	<u>\$1,238,049</u>	<u>\$7,772,833</u>

The cash and investments making up the above balances are as follows:

Deposits	\$1,669,450
Investments	6,102,883
Petty cash	500
Total	<u>\$7,772,833</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$1,142,544 of the City's bank balance of \$1,642,544 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Governmental activities				
Kent County Investment Pool	N/A	\$4,892,460	Unrated	
Other Postemployment Benefits Trust Fund				
Vantagepoint Milestone Ret. Income Fund	N/A	<u>1,210,423</u>	3 stars	Morningstar
Total		<u>\$6,102,883</u>		

The aforementioned investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

Investment and deposit risk

Interest Rate Risk. State law and City policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There is no stated maturity date for the City's investments identified above.

At June 30, 2014 the balance of the Kent County Public Funds Investment Pool consisted of the following:

<u>Investment</u>	<u>Percentage of pool total</u>	<u>Maturity in years</u>
Government agency securities	22%	0-3
Certificates of deposits	66%	0-4
Money markets and other pools	12%	Not applicable

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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. Of the above pooled and mutual fund investments, the City's custodial credit risk exposure cannot be determined because the City's participation in the pool/funds does not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

3. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at June 30, 2014 were as follows:

<u>Payable fund</u>	<u>Receivable fund</u>
	Internal service fund
General fund	\$49,161
Major streets fund	3,278
Nonmajor governmental funds	3,278
Water and sewer fund	6,555
Internal service fund	3,278
	\$65,550

Interfund balances reflect amounts owed to an internal service fund for services provided.

Transfers in and out for the year ended June 30, 2014 are as follows:

<u>Transfers in</u>	<u>Transfers out</u>		<u>Total</u>
	<u>General fund</u>	Nonmajor governmental funds	
General fund	\$ -	\$ 20,631	\$ 20,631
Nonmajor governmental funds	1,000,000	293,621	1,293,621
Water and sewer fund	-	13,754	13,754
Internal service funds	-	13,754	13,754
Total	\$1,000,000	\$341,760	\$1,341,760

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	-	89,429	-	89,429
Total capital assets, not being depreciated	2,124,000	89,429	-	2,213,429
Capital assets, being depreciated				
Land improvements	1,933,767	-	-	1,933,767
Buildings	12,417,729	-	-	12,417,729
Building improvements	3,527,083	34,196	-	3,561,279
Vehicles and equipment	4,308,527	148,467	12,723	4,444,271
Infrastructure	16,694,133	254,307	-	16,948,440
Total capital assets, being depreciated	38,881,239	436,970	12,723	39,305,486
Less accumulated depreciation for				
Land improvements	517,371	97,663	-	615,034
Buildings	2,965,533	400,170	-	3,365,703
Building improvements	2,165,605	181,435	-	2,347,040
Vehicles and equipment	2,166,531	332,013	1,272	2,497,272
Infrastructure	8,215,248	745,718	-	8,960,966
Total accumulated depreciation	16,030,288	1,756,999	1,272	17,786,015
Net capital assets, being depreciated	22,850,951	(1,320,029)	11,451	21,519,471
Governmental Activities capital assets, net	\$ 24,974,951	\$(1,230,600)	\$11,451	\$23,732,900
Business-type Activities				
Construction in progress	\$ -	\$304,391	\$ -	\$ 304,391
Capital assets being depreciated				
Sewer system	8,911,211	27,819	-	8,939,030
Water system	7,417,953	10,227	-	7,428,180
Lift station	390,983	-	-	390,983
Water tower	560,014	-	-	560,014
Drains	1,726,036	-	-	1,726,036
Meters	350,271	-	-	350,271
Total capital assets, being depreciated	19,356,468	38,046	-	19,394,514
Less accumulated depreciation for				
Sewer system	5,462,844	180,311	-	5,643,155
Water system	2,360,754	130,813	-	2,491,567
Lift station	275,104	13,689	-	288,793
Water tower	221,833	37,465	-	259,298
Drains	1,395,730	86,302	-	1,482,032
Meters	271,460	17,513	-	288,973
Total accumulated depreciation	9,987,725	466,093	-	10,453,818
Net capital assets, being depreciated	9,368,743	(428,047)	-	8,940,696
Business-type Activities capital assets, net	\$9,368,743	\$(123,656)	\$ -	\$9,245,087

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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

Governmental Activities	
General government	\$ 299,732
Public safety	224,799
Public works	749,330
Recreation and culture	224,799
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>258,339</u>
Total depreciation expense - governmental activities	<u><u>\$1,756,999</u></u>
Business-type Activities	
Water and sewer	<u>\$466,093</u>

5. PENSION PLANS

Defined Benefit Plan

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined amount, which for the current year was \$765,348. Employees are required to contribute to the Plan from 0% to 5% of covered payroll dependent on the bargaining unit. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by employment and labor agreements.

For the year ended June 30, 2014, the City's annual pension cost of \$765,348 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus from 0% to 5.0% based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at an accelerated rate since the plan is closed to new hires. The amortization period used for the 2013-14 contribution was 13 years; the remaining amortization period at December 31, 2013, the date of the most recent actuarial valuation, was 11 years.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/12	\$694,092	100%	\$ -
6/30/13	786,132	100%	-
6/30/14	765,348	100%	-

Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>Total</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
12/31/13	\$10,359,980	\$17,852,828	\$7,492,848	58%	\$492,474	1521%

Defined Contribution Plans

The City also maintains three defined contribution retirement plans offered and administered by MERS. The City services defined contribution plan covers all City service employees hired on or after July 7, 1999 and all City service employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. The Non-Union Defined Contribution Plan covers all non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. The Public Safety Defined Contribution Plan covers all public safety officers, lieutenants, and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002.

City Services Defined Contribution Plan

The City Services Plan requires participants and the City to each contribute 5% of the participants' salaries to the Plan. Participants have the option to contribute an additional 1%. The City's contribution for the year was \$42,079 and the employees' contribution was \$42,079.

Non-Union Defined Contribution Plan

The Non-Union Plan gives participants the option to contribute up to 1% of their salary to the plan. The City is required to contribute 14% of the participants' salaries and match the employees' optional contribution. The City's contribution for the year was \$204,537 and the employees' contribution was \$13,636.

Public Safety Defined Contribution Plan

The Public Safety Plan requires participants to contribute 3.77-3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salaries to the Plan. The City's contribution for the year was \$234,958 and the employees' contribution was \$58,928.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

6. OTHER POSTEMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (the Plan). The plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 55 years of age, with 25 years of service to the City, and is maintained until the employee is eligible for federal Medicare coverage at age 65. The City established a retirement health savings trust to account for the Plan effective June 13, 2008. The Plan does not issue a separate financial report.

The City contributes to the Plan as determined by the City Commission. The annual required contribution (ARC) was \$315,316 while the City contributed \$71,855 to the plan, which was the amount paid in direct payments for retirees from the health insurance internal service fund to provide insurance coverage for 6 retired employees. The contribution requirements of the Plan members and the City are established and may be amended by the City Commission.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a period of fifteen years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's OPEB asset to the plan.

Annual required contribution	\$ 315,316
Interest on Net OPEB asset	1,999
Adjustment to annual required contribution	<u>(4,277)</u>
Annual OPEB cost (expense)	313,038
Contribution made	<u>71,855</u>
Decrease in net OPEB asset	(241,183)
Net OPEB asset, beginning of year	33,308
Net OPEB liability, end of year	<u><u>\$(207,875)</u></u>

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual OPEB <u>Cost</u>	Percentage of OPEB <u>Cost Contributed</u>	Net OPEB Asset <u>(liability)</u>
6/30/12	\$296,558	64%	\$235,072
6/30/13	347,604	42%	33,308
6/30/14	313,038	23%	(207,875)

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/14	\$1,210,423	\$3,644,458	\$2,434,035	33%	\$4,088,968	60%

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

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

The June 30, 2014 actuarial valuation of the Plan utilized the individual entry age actuarial cost method. The actuarial assumptions included: a rate of return on investments of 6%, and projected healthcare benefit increases of 2%. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 15 year period.

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Governmental Activities					
\$8,740,000 Unlimited Tax General Obligation Bonds, Series 2004; due in annual installments of \$110,000 to \$550,000 through April 2034, plus interest at 3.50% to 4.875%	\$ 120,000	\$ -	\$120,000	\$ -	\$ -
\$8,400,000 Unlimited Tax General Obligation Bonds, Series 2012B; due in annual installments of \$70,000 to \$570,000 through June 2033, plus interest at 2% to 4%	8,400,000	-	70,000	8,330,000	210,000

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
\$3,140,000 2005 Michigan Transportation Fund Bonds; due in annual installments of \$185,000 to \$265,000 through April 2020, plus interest at 3.50% to 4.25%	\$ 1,655,000	\$ -	\$210,000	\$ 1,445,000	\$220,000
\$1,243,000 Unlimited Tax General Obligation Refunding Bonds Series 2012; due in annual installments of \$97,000 to \$151,000 through April 2022, plus interest at 1.99%	1,146,000	-	103,000	1,043,000	111,000
Total	11,321,000	-	503,000	10,818,000	541,000
Unamortized premium	157,511	-	7,876	149,635	7,876
Total Governmental Activities	\$11,478,511	\$ -	\$510,876	\$10,967,635	\$548,876
Business-type Activities					
\$981,824 Kent County Silver Creek Drain Refunding Bonds (18.65% City portion), due in annual installments of \$64,960 to \$107,648 through November 2015; plus interest 3.00% to 4.25%	\$240,352	\$ -	\$107,647	\$132,705	\$64,960
\$195,372 Kent County Silver Creek Drain Note (72.9% City portion), due in annual installments of \$38,127 to \$40,017 through March 2017; plus interest 1.5%	157,245	-	38,598	118,647	39,074
Total Business-type Activities	\$397,597	\$ -	\$146,245	\$251,352	\$104,034

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 541,000	\$ 309,656	\$104,034	\$5,644
2016	588,000	294,996	107,301	2,423
2017	621,000	279,310	40,017	494
2018	667,000	262,202	-	-
2019	570,000	229,662	-	-
2020-2024	2,916,000	913,786	-	-
2025-2029	2,760,000	557,200	-	-
2030-2033	2,155,000	160,350	-	-
Total	\$10,818,000	\$3,007,162	\$251,352	\$8,561

8. RISK MANAGEMENT

The City is self-funded for employees' health benefits. The claims liability of \$99,536 reported at June 30, 2014 is based on the requirements of the Governmental Accounting Standards Board, which requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The activity of the self-funded insurance is accounted for in the Health Insurance Internal Service fund. An excess coverage insurance policy covers claims in excess of \$40,000 per covered individual. There were no changes in insurance coverage from the prior year. The City is responsible for paying administrative charges which are included in this fund. The revenues for this fund's operation are charges to various funds, employee withholdings, and co-payments. The liability at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in the history of the self-insurance program, and there have been no significant reductions in insurance coverage from the prior year.

The changes in the claims liability for the years ended June 30, 2014 and 2013 were as follows:

Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2013	\$ 45,249	\$1,027,510	\$916,848	\$155,911
2014	155,911	1,016,267	1,072,642	99,536

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no changes in insurance coverage from the prior year.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its member by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

9. LITIGATION

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

10. CONSTRUCTION CODE FEES

The City oversees building construction in accordance with the State of Michigan Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. During the year, the City collected fees of \$63,340 with related direct and indirect expenditures in excess of that amount.

11. COMMITMENTS

At year-end the City had construction commitments of approximately \$364,000.

12. PRIOR PERIOD ADJUSTMENTS

Beginning net position of governmental activities and the health insurance internal service fund was decreased by \$95,600 to recognize a liability related to employee health retirement accounts funded by the City. Beginning net position of governmental activities was decreased \$209,434 to write off bond issuance costs in accordance with the implementation of Governmental Accounting Standards Board Statement No. 65.

13. UPCOMING ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the fiscal year beginning after June 15, 2014. This Statement requires governments providing defined benefit pensions to recognize their net pension liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability that will be recorded on the government-wide statements will be computed differently than the current unfunded actuarial accrued liability using specific parameters set forth by the GASB. The impact this Statement will have on the financial statements when adopted is currently not determinable.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 7,622,500	\$ 7,622,500	\$ 7,627,663	\$ 5,163
Intergovernmental revenues				
State	828,900	883,900	908,367	24,467
Licenses and permits	223,000	243,000	274,437	31,437
Charges for services	1,342,100	1,315,800	1,350,190	34,390
Fines	87,000	87,000	94,069	7,069
Rentals	127,000	140,000	117,679	(22,321)
Investment earnings	15,000	15,000	13,887	(1,113)
Miscellaneous revenue	-	22,000	20,933	(1,067)
Total revenues	<u>10,245,500</u>	<u>10,329,200</u>	<u>10,407,225</u>	<u>78,025</u>
Expenditures				
Current				
Legislative	28,500	31,400	26,871	4,529
General government	1,427,550	1,463,500	1,387,485	76,015
Public safety	4,309,200	4,358,200	4,294,479	63,721
Public works	1,472,200	1,548,000	1,506,565	41,435
Culture and recreation	1,650,050	1,650,600	1,650,626	(26)
Capital outlay	<u>358,000</u>	<u>338,800</u>	<u>197,019</u>	<u>141,781</u>
Total expenditures	<u>9,245,500</u>	<u>9,390,500</u>	<u>9,063,045</u>	<u>327,455</u>
Revenues over (under) expenditures	1,000,000	938,700	1,344,180	405,480
Other financing sources (uses)				
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>-</u>
Net changes in fund balance	-	(40,600)	364,811	405,411
Fund balance, beginning of year	<u>2,621,421</u>	<u>2,621,421</u>	<u>2,621,421</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,621,421</u>	<u>\$ 2,580,821</u>	<u>\$ 2,986,232</u>	<u>\$ 405,411</u>

CITY OF EAST GRAND RAPIDS

MAJOR STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 480,500	\$ 560,500	\$ 577,978	\$ 17,478
Investment earnings	<u>300</u>	<u>300</u>	<u>1,140</u>	<u>840</u>
Total revenues	<u>480,800</u>	<u>560,800</u>	<u>579,118</u>	<u>18,318</u>
Expenditures				
Current				
Public works				
Street maintenance	462,000	479,400	436,063	43,337
Street construction	75,500	75,500	67,036	8,464
Street administration	96,800	99,000	74,427	24,573
Engineering	<u>57,400</u>	<u>59,000</u>	<u>56,305</u>	<u>2,695</u>
Total expenditures	<u>691,700</u>	<u>712,900</u>	<u>633,831</u>	<u>79,069</u>
Revenues over (under) expenditures	<u>(210,900)</u>	<u>(152,100)</u>	<u>(54,713)</u>	<u>97,387</u>
Other financing sources				
Transfers in	410,000	410,000	409,637	(363)
Transfers out	<u>(275,700)</u>	<u>(275,700)</u>	<u>(275,488)</u>	<u>212</u>
Total other financing sources (uses)	<u>134,300</u>	<u>134,300</u>	<u>134,149</u>	<u>(151)</u>
Net changes in fund balance	(76,600)	(17,800)	79,436	97,236
Fund balance, beginning of year	<u>699,076</u>	<u>699,076</u>	<u>699,076</u>	<u>-</u>
Fund balance, end of year	<u>\$ 622,476</u>	<u>\$ 681,276</u>	<u>\$ 778,512</u>	<u>\$ 97,236</u>

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

MERS DEFINED BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
12/31/2011	\$ 10,941,905	\$ 17,937,022	\$ 6,995,117	61.00%	\$ 549,383	1273.27%
12/31/2012	10,573,074	17,990,797	7,417,723	58.77%	506,750	1463.78%
12/31/2013	10,359,980	17,852,828	7,492,848	58.03%	492,474	1521.47%

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

RETIREE HEALTH OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2012	\$ 1,039,590	\$ 3,444,322	\$ 2,404,732	30.18%	\$ 4,232,877	56.81%
6/30/2013	1,113,668	3,816,549	2,702,881	29.18%	4,154,430	65.06%
6/30/2014	1,210,423	3,644,458	2,434,035	33.21%	4,088,968	59.53%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2009	\$ 222,093	\$ 517,477	233%
2010	232,087	330,892	143%
2011	246,996	181,203	73%
2012	319,904	190,368	60%
2013	363,686	145,840	40%
2014	315,316	71,855	23%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF REVENUES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

Revenues	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Taxes				
Property taxes	\$ 7,602,500	\$ 7,602,500	\$ 7,608,807	\$ 6,307
Interest and penalties on property taxes	20,000	20,000	18,856	(1,144)
Total taxes	7,622,500	7,622,500	7,627,663	5,163
Intergovernmental revenue				
State shared revenue	822,500	877,500	897,733	20,233
State grants	6,400	6,400	10,634	4,234
Total intergovernmental revenue	828,900	883,900	908,367	24,467
Licenses and permits				
Business licenses	10,000	10,000	20,050	10,050
Cable television franchise fees	180,000	200,000	204,434	4,434
Building permits	25,000	25,000	35,515	10,515
Other	8,000	8,000	14,438	6,438
Total licenses and permits	223,000	243,000	274,437	31,437
Charges for services				
Administrative charges	130,000	130,000	130,000	-
Recreation fees	849,600	829,800	843,062	13,262
Grounds maintenance fees	126,100	120,800	123,212	2,412
Clerk's services	1,500	1,500	4,861	3,361
Right of way fees	32,000	32,000	34,022	2,022
Other	202,900	201,700	215,033	13,333
Total charges for services	1,342,100	1,315,800	1,350,190	34,390
Fines and penalties	87,000	87,000	94,069	7,069
Interest				
Interest	15,000	15,000	13,887	(1,113)
Rentals				
Cable tower rental	127,000	140,000	117,679	(22,321)
Miscellaneous revenue				
Contribution from private sources	-	22,000	20,933	(1,067)
Total revenues	\$ 10,245,500	\$ 10,329,200	\$ 10,407,225	\$ 78,025

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Commission				
Personnel services	\$ 9,700	\$ 9,700	\$ 9,161	\$ 539
Contractual services	3,000	3,300	2,994	306
Other	15,800	18,400	14,716	3,684
Total legislative	28,500	31,400	26,871	4,529
General government				
City Manager				
Personnel services	265,525	267,600	270,195	(2,595)
Equipment	200	200	149	51
Other	9,900	10,900	9,421	1,479
Total city manager	275,625	278,700	279,765	(1,065)
City Assessor				
Personnel services	119,825	120,900	114,550	6,350
Operating supplies	5,000	4,200	4,378	(178)
Equipment	100	100	94	6
Other	2,500	3,400	3,854	(454)
Total city assessor	127,425	128,600	122,876	5,724
City Attorney				
Professional services	230,000	265,000	249,089	15,911
Elections				
Personnel services	7,500	7,500	5,881	1,619
Contractual services	1,500	1,500	631	869
Operating supplies	2,500	2,500	1,644	856
Total elections	11,500	11,500	8,156	3,344
Finance				
Personnel services	498,600	462,600	421,496	41,104
Contractual services	10,000	22,200	24,221	(2,021)
Professional services	15,000	14,100	14,100	-
Operating supplies	23,700	25,700	30,824	(5,124)
Repairs and maintenance	38,000	44,900	38,336	6,564
Equipment	500	500	476	24
Other	16,200	13,700	8,420	5,280
Total finance	602,000	583,700	537,873	45,827

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Other				
Personnel services	\$ 5,000	\$ 5,000	\$ 2,852	\$ 2,148
Contractual services	25,000	25,000	23,203	1,797
Insurance premiums	151,000	166,000	163,671	2,329
Total other	181,000	196,000	189,726	6,274
Total general government	1,427,550	1,463,500	1,387,485	76,015
Public Safety				
General activity				
Personnel services	3,882,500	3,921,500	3,913,802	7,698
Contractual services	117,000	127,000	105,936	21,064
Operating supplies	74,400	74,400	65,489	8,911
Repairs and maintenance	9,000	9,000	7,214	1,786
Equipment	190,000	190,000	163,621	26,379
Other	30,500	30,500	29,548	952
Total general activity	4,303,400	4,352,400	4,285,610	66,790
State programs				
Training	5,800	5,800	8,869	(3,069)
Total public safety	4,309,200	4,358,200	4,294,479	63,721
Public Works				
City buildings				
Personnel services	205,250	206,300	221,862	(15,562)
Contractual services	443,700	457,400	431,207	26,193
Operating supplies	29,500	35,500	34,693	807
Repairs and maintenance	-	600	254	346
Equipment	10,000	10,000	11,114	(1,114)
Other	5,400	5,400	1,315	4,085
Total city buildings	693,850	715,200	700,445	14,755
Zoning administration				
Personnel services	100,600	100,700	111,265	(10,565)
Contractual services	13,000	13,000	18,837	(5,837)
Operating supplies	1,200	1,200	2,256	(1,056)
Equipment	1,000	1,000	252	748
Total zoning administration	115,800	115,900	132,610	(16,710)

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Street lighting				
Contractual services	\$ 99,000	\$ 95,000	\$ 87,752	\$ 7,248
Repairs and maintenance	-	1,000	807	193
Total street lighting	<u>99,000</u>	<u>96,000</u>	<u>88,559</u>	<u>7,441</u>
Wealthy streetscape maintenance				
Personnel services	7,700	7,700	1,746	5,954
Contractual services	60,000	85,000	80,335	4,665
Operating supplies	11,000	12,000	14,247	(2,247)
Total wealthy streetscape maintenance	<u>78,700</u>	<u>108,700</u>	<u>100,239</u>	<u>8,461</u>
Waste collection				
Personnel services	146,675	150,200	154,604	(4,404)
Contractual services	110,000	110,000	92,751	17,249
Operating supplies	800	800	982	(182)
Equipment	120,000	140,000	158,119	(18,119)
Total waste collection	<u>377,475</u>	<u>401,000</u>	<u>406,456</u>	<u>(5,456)</u>
Lake restoration				
Contractual services	12,500	12,500	13,975	(1,475)
Tree maintenance and removal				
Personnel services	41,375	45,000	30,982	14,018
Contractual services	37,500	37,700	20,571	17,129
Operating Supplies	1,000	1,000	190	810
Equipment	15,000	15,000	12,538	2,462
Tree maintenance and removal	<u>94,875</u>	<u>98,700</u>	<u>64,281</u>	<u>34,419</u>
Total public works	<u>1,472,200</u>	<u>1,548,000</u>	<u>1,506,565</u>	<u>41,435</u>
Culture and recreation				
Parks and recreation				
Personnel services	840,950	823,200	842,895	(19,695)
Contractual services	146,500	140,700	148,447	(7,747)
Joint facilities agreement	154,200	165,600	169,786	(4,186)
Operating supplies	47,900	55,400	45,987	9,413
Repairs and maintenance	16,800	16,400	16,578	(178)
Equipment	1,000	1,000	912	88
Other	19,100	19,400	17,408	1,992
Total parks and recreation	<u>1,226,450</u>	<u>1,221,700</u>	<u>1,242,013</u>	<u>(20,313)</u>

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Grounds maintenance				
Personnel services	\$ 175,200	\$ 169,500	\$ 173,737	\$ (4,237)
Contractual services	1,700	5,000	3,872	1,128
Operating supplies	20,800	20,700	18,665	2,035
Repairs and maintenance	76,500	72,600	72,531	69
Equipment	8,000	9,000	11,179	(2,179)
Other	200	200	178	22
	<u>282,400</u>	<u>277,000</u>	<u>280,162</u>	<u>(3,162)</u>
Total grounds maintenance				
Special events				
Personnel services	4,700	5,500	6,606	(1,106)
Contractual services	48,200	51,000	46,363	4,637
Operating supplies	49,500	55,500	49,361	6,139
Other	38,800	39,900	26,121	13,779
	<u>141,200</u>	<u>151,900</u>	<u>128,451</u>	<u>23,449</u>
Total special events				
Total culture and recreation	<u>1,650,050</u>	<u>1,650,600</u>	<u>1,650,626</u>	<u>(26)</u>
Capital outlay				
Commission	15,000	-	782	(782)
Finance	17,900	13,700	12,688	1,012
City buildings	53,700	129,800	60,569	69,231
Public safety				
General activity	8,000	8,200	13,654	(5,454)
Drug seizure program	46,400	57,700	33,818	23,882
Culture and recreation				
Parks	207,000	119,400	75,508	43,892
Other	10,000	10,000	-	10,000
	<u>358,000</u>	<u>338,800</u>	<u>197,019</u>	<u>141,781</u>
Total capital outlay				
Total expenditures	<u>\$ 9,245,500</u>	<u>\$ 9,390,500</u>	<u>\$ 9,063,045</u>	<u>\$ 327,455</u> (concluded)

CITY OF EAST GRAND RAPIDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2014

	Special Revenue		Debt Service		Capital Projects			Total
	Local Streets	Wealthy Pool	Municipal Complex	Streetscape	Culvert and Trail Project	Streets and Utilities Building	Special Assessments	
Assets								
Cash and pooled investments	\$ 65,024	\$ 4,118	\$ 18,167	\$ -	\$ 40,086	\$ -	\$ 4,288	\$ 131,683
Investments	555,438	-	-	-	-	-	-	555,438
Special assessments receivable	-	-	-	-	-	-	32,455	32,455
Due from other governments	30,750	-	-	-	-	-	-	30,750
Inventory	9,716	-	-	-	-	-	-	9,716
Total assets	<u>\$ 660,928</u>	<u>\$ 4,118</u>	<u>\$ 18,167</u>	<u>\$ -</u>	<u>\$ 40,086</u>	<u>\$ -</u>	<u>\$ 36,743</u>	<u>\$ 760,042</u>
Liabilities and fund balances								
Liabilities								
Accounts payable	\$ 12,116	\$ -	\$ -	\$ -	\$ 28,341	\$ -	\$ -	\$ 40,457
Due to other funds	3,278	-	-	-	-	-	-	3,278
Accrued liabilities	6,513	-	-	-	-	-	-	6,513
Total liabilities	<u>21,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,341</u>	<u>-</u>	<u>-</u>	<u>50,248</u>
Deferred inflows of resources								
Unavailable receivables	-	-	-	-	-	-	22,534	22,534
Fund balances								
Nonspendable								
Inventory	9,716	-	-	-	-	-	-	9,716
Restricted								
Streets	629,305	-	-	-	-	-	-	629,305
Debt service	-	4,118	18,167	-	-	-	-	22,285
Assigned	-	-	-	-	11,745	-	14,209	25,954
Total fund balances	<u>639,021</u>	<u>4,118</u>	<u>18,167</u>	<u>-</u>	<u>11,745</u>	<u>-</u>	<u>14,209</u>	<u>687,260</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 660,928</u>	<u>\$ 4,118</u>	<u>\$ 18,167</u>	<u>\$ -</u>	<u>\$ 40,086</u>	<u>\$ -</u>	<u>\$ 36,743</u>	<u>\$ 760,042</u>

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue		Debt Service		Capital Projects			Total
	Local Streets	Wealthy Pool	Municipal Complex	Streetscape	Culvert and Trail Project	Streets and Utilities Building	Special Assessments	
Revenues								
Taxes	\$ -	\$ 108,014	\$ 328,230	\$ -	\$ -	\$ -	\$ -	\$ 436,244
Intergovernmental revenues								
State	223,081	-	-	-	-	-	-	223,081
Special assessments	-	-	-	-	-	-	10,294	10,294
Investment earnings	1,659	-	-	-	-	-	3,916	5,575
Total revenues	<u>224,740</u>	<u>108,014</u>	<u>328,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,210</u>	<u>675,194</u>
Expenditures								
Current								
Public works	693,639	-	-	-	-	-	-	693,639
Debt service								
Principal	-	103,000	190,000	210,000	-	-	-	503,000
Interest	-	22,804	238,272	65,488	-	-	-	326,564
Capital outlay	-	-	-	-	68,255	-	-	68,255
Total expenditures	<u>693,639</u>	<u>125,804</u>	<u>428,272</u>	<u>275,488</u>	<u>68,255</u>	<u>-</u>	<u>-</u>	<u>1,591,458</u>
Revenues over (under) expenditures	<u>(468,899)</u>	<u>(17,790)</u>	<u>(100,042)</u>	<u>(275,488)</u>	<u>(68,255)</u>	<u>-</u>	<u>14,210</u>	<u>(916,264)</u>
Other financing sources (uses)								
Transfers in	528,496	-	-	275,488	80,000	-	-	883,984
Transfers out	-	-	-	-	-	(48,139)	(18,133)	(66,272)
Total other financing sources (uses)	<u>528,496</u>	<u>-</u>	<u>-</u>	<u>275,488</u>	<u>80,000</u>	<u>(48,139)</u>	<u>(18,133)</u>	<u>817,712</u>
Net changes in fund balances	59,597	(17,790)	(100,042)	-	11,745	(48,139)	(3,923)	(98,552)
Fund balances, beginning of year	<u>579,424</u>	<u>21,908</u>	<u>118,209</u>	<u>-</u>	<u>-</u>	<u>48,139</u>	<u>18,132</u>	<u>785,812</u>
Fund balances, end of year	<u>\$ 639,021</u>	<u>\$ 4,118</u>	<u>\$ 18,167</u>	<u>\$ -</u>	<u>\$ 11,745</u>	<u>\$ -</u>	<u>\$ 14,209</u>	<u>\$ 687,260</u>

CITY OF EAST GRAND RAPIDS

**LOCAL STREETS FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 200,000	\$ 220,000	\$ 223,081	\$ 3,081
Investment earnings	<u>1,000</u>	<u>1,000</u>	<u>1,659</u>	<u>659</u>
Total revenues	<u>236,000</u>	<u>221,000</u>	<u>224,740</u>	<u>3,740</u>
Expenditures				
Current				
Public works				
Street maintenance	509,000	450,700	433,845	16,855
Street construction	205,700	212,200	187,546	24,654
Street administration	<u>97,700</u>	<u>96,800</u>	<u>72,248</u>	<u>24,552</u>
Total expenditures	<u>812,400</u>	<u>759,700</u>	<u>693,639</u>	<u>66,061</u>
Revenues over (under) expenditures	(576,400)	(538,700)	(468,899)	69,801
Other financing source (uses)				
Transfers in	<u>609,000</u>	<u>529,000</u>	<u>528,496</u>	<u>(504)</u>
Net changes in fund balance	32,600	(9,700)	59,597	69,297
Fund balance, beginning of year	<u>579,424</u>	<u>579,424</u>	<u>579,424</u>	<u>-</u>
Fund balance, end of year	<u>\$ 612,024</u>	<u>\$ 569,724</u>	<u>\$ 639,021</u>	<u>\$ 69,297</u>

CITY OF EAST GRAND RAPIDS

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET POSITION

JUNE 30, 2014

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 45,370	\$ 80,739	\$ 126,109
Investments	955,919	350,217	1,306,136
Accounts receivable	405	31,250	31,655
Due from other funds	-	65,550	65,550
Prepaid and other assets	3,025	29,328	32,353
Inventory	<u>59,673</u>	<u>-</u>	<u>59,673</u>
Total current assets	<u>1,064,392</u>	<u>557,084</u>	<u>1,621,476</u>
Capital assets			
Capital assets being depreciated	3,829,449	-	3,829,449
Less accumulated depreciation	<u>(2,146,697)</u>	<u>-</u>	<u>(2,146,697)</u>
Net capital assets	<u>1,682,752</u>	<u>-</u>	<u>1,682,752</u>
Total assets	<u>2,747,144</u>	<u>557,084</u>	<u>3,304,228</u>
Liabilities			
Current liabilities			
Accounts payable	43,871	2,776	46,647
Due to other funds	3,278	-	3,278
Accrued liabilities	1,362	194,749	196,111
Compensated absences	<u>11,223</u>	<u>-</u>	<u>11,223</u>
Total liabilities	<u>59,734</u>	<u>197,525</u>	<u>257,259</u>
Net position			
Net investment in capital assets	1,682,752	-	1,682,752
Unrestricted	<u>1,004,658</u>	<u>359,559</u>	<u>1,364,217</u>
Total net position	<u>\$ 2,687,410</u>	<u>\$ 359,559</u>	<u>\$ 3,046,969</u>

CITY OF EAST GRAND RAPIDS

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2014

	Motor Pool	Health Insurance	Total
Operating revenue			
Charges for services	\$ 739,101	\$ 1,370,943	\$ 2,110,044
Operating expense			
Salaries and wages	186,413	-	186,413
Contracted services	7,074	348,332	355,406
Materials and supplies	250,100	-	250,100
Equipment	3,384	-	3,384
Claims	-	805,140	805,140
Administration	-	104,329	104,329
Depreciation	258,339	-	258,339
Total operating expense	<u>705,310</u>	<u>1,257,801</u>	<u>1,963,111</u>
Operating income (loss)	<u>33,791</u>	<u>113,142</u>	<u>146,933</u>
Non-operating revenue (expense)			
Gain on sale of fixed assets	23,377	-	23,377
Interest income	2,995	624	3,619
Total non-operating revenue (expense)	<u>26,372</u>	<u>624</u>	<u>26,996</u>
Changes in net position	73,917	113,766	187,683
Net position, beginning of year, as restated	<u>2,613,493</u>	<u>245,793</u>	<u>2,859,286</u>
Net position, end of year	<u>\$ 2,687,410</u>	<u>\$ 359,559</u>	<u>\$ 3,046,969</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from internal services provided	\$ 740,093	\$ 1,396,391	\$ 2,136,484
Payments to employees	(186,127)	-	(186,127)
Payments to suppliers	(260,707)	(1,309,258)	(1,569,965)
Net cash provided by (used in) operating activities	<u>293,259</u>	<u>87,133</u>	<u>380,392</u>
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	23,377	-	23,377
Acquisitions of capital assets	(78,334)	-	(78,334)
Net cash provided by (used in) capital and related financing activities	<u>(54,957)</u>	<u>-</u>	<u>(54,957)</u>
Cash flows from investing activities			
Net investment activity	(292,592)	(21,950)	(314,542)
Interest income	2,995	624	3,619
Net cash provided by (used in) investing activities	<u>(289,597)</u>	<u>(21,326)</u>	<u>(310,923)</u>
Net increase (decrease) in cash and pooled investments	(37,541)	65,807	28,266
Cash and pooled investments, beginning of year	<u>82,911</u>	<u>14,932</u>	<u>97,843</u>
Cash and pooled investments, end of year	<u>\$ 45,370</u>	<u>\$ 80,739</u>	<u>\$ 126,109</u>
Cash flows from operating activities			
Operating income (loss)	\$ 33,791	\$ 113,142	\$ 146,933
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	258,339	-	258,339
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	(405)	35,330	34,925
Due from other funds	-	(9,882)	(9,882)
Prepaid and other assets	(2,773)	4,032	1,259
Inventory	(7,356)	-	(7,356)
Accounts payable	9,980	1,273	11,253
Due to other funds	1,397	-	1,397
Accrued liabilities	(604)	(56,762)	(57,366)
Compensated absences	890	-	890
Net cash provided by (used in) operating activities	<u>\$ 293,259</u>	<u>\$ 87,133</u>	<u>\$ 380,392</u>

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INTERNAL CONTROL AND COMPLIANCE



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INDEPENDENT AUDITORS' 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

October 3, 2014

Honorable Mayor and Members of the City Commission
City of East Grand Rapids, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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October 3, 2014

To the City Commission
City of East Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids (the City) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted Statement of Governmental Accounting Standards (GASB Statement) No. 65 in 2014 which resulted in writing off accrued bond costs on the government-wide financial statement which are required to be expensed by GASB 65. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on previous history and future expectations. The estimate of pension benefit plan obligations is based on a valuation of the plan performed by an actuary. The estimate of other postemployment benefit plan obligations is based on a valuation of the plan performed by management. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements.

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Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI), as itemized in the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We also noted the following items:

After review and discussion of line item details, the City Commission adopts the annual budget by total revenues and expenditures by fund. The Michigan Department of Treasury Uniform Budget Manual includes recommendations for compliance with Public Act 621 of 1978, the Uniform Accounting & Budget Act (the "Act"). The guidance includes, among other things, that the budget must be adopted at the revenue by source and expenditures by activity level and states that budgeting by total revenue and total expenditures or by function is not acceptable. We recommend that the City review the Act and the Uniform Budget Manual and consider the recommendations in the budget process.

Accounting and Financial Reporting for Pensions

Effective for the year ending June 30, 2015, the City will be required to implement a new pension reporting standard. This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability may affect net assets of proprietary funds and government-wide financial statements. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts may be deferred and amortized over varying periods.

Restriction on Use

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

Sincerely,

Urodewald Haefner LLC