



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



Vredeveld Haefner LLC

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

September 20, 2012

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

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of East Grand Rapids, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of East Grand Rapids, Michigan, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2012, on our consideration of the City of East Grand Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 3 through 8 and the required supplementary 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Grand Rapids' 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The continuing disclosure section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Uredaxeld 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, 2012.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2012 fiscal year as follows:

- Completed the \$1.45 million dollar Streets and Utilities building project renovation using available cash on hand (no financing required).
- Continued with our on-going technology replacement program including a new server/email system, public safety tough-book replacements and a new records management system for the public safety department.
- Completed \$100,000 in land improvements including parking lot resurfacings, Reeds Lake trail improvements and improvements to Water Front Park.
- Completed multiple road and infrastructure improvements including \$350,000 in local street improvements and \$500,000 in water line improvements.
- An additional \$40,000 allocation was made by both the City of East Grand Rapids and the East Grand Rapids Public Schools for future turf replacements on the local athletic fields.
- \$434,000 was invested in various vehicle and equipment replacements in the City's Motor Pool Equipment Fund (MERF).

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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, major streets fund and Wealthy Pool 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. Budgetary comparison statements have been provided for the general and major streets funds 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 enterprise funds 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 Assets As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$27,897,603 at the close of the most recent fiscal year. The following chart illustrates the composition of net assets.

Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 6,010,350	\$ 6,441,800	\$1,051,565	\$ 507,417	\$ 7,061,915	\$ 6,949,217
Long-term assets	25,236,010	25,923,775	8,445,168	8,366,053	33,681,178	34,289,828
Total assets	31,246,360	32,365,575	9,496,733	8,873,470	40,743,093	41,239,045
Liabilities						
Current liabilities	1,025,106	1,156,243	469,397	491,440	1,494,503	1,647,683
Long-term liabilities	11,098,408	11,516,923	252,579	360,681	11,350,987	11,877,604
Total liabilities	12,123,514	12,673,166	721,976	852,121	12,845,490	13,525,287
Net assets						
Invested in capital assets, net of related debt	13,861,279	14,070,157	8,101,880	7,923,469	21,963,159	21,993,626
Restricted	1,479,489	1,463,718	-	-	1,479,489	1,463,718
Unrestricted	3,782,078	4,158,534	672,877	97,880	4,454,955	4,256,414
Total net assets	\$19,122,846	\$19,692,409	\$8,774,757	\$8,021,349	\$27,897,603	\$27,713,758

By far the largest portion of the City's net assets in the amount of 79% reflects its 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 assets 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 assets in the amount of \$4,454,955, or 16%, 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 assets; 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, 2012, was \$15,342,586 while total cost of all programs and services was \$15,158,741. This resulted in an increase in net assets of \$183,845. The following table presents a summary of the changes in net assets for the years ended June 30.

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$1,610,731	\$1,624,647	\$3,493,640	\$2,713,493	\$5,104,371	\$4,338,140
Operating grants and contributions	723,853	727,346	-	-	723,853	727,346
Capital grants and contributions	352,552	722,537	150,000	466,189	502,552	1,188,726
General revenues						
Property taxes	7,877,485	7,789,051	-	-	7,877,485	7,789,051
State shared revenues	843,650	798,316	-	-	843,650	798,316
Cable franchise fees	188,716	188,632	-	-	188,716	188,632
Investment earnings	35,134	38,229	66,825	54,682	101,959	92,911
Total revenues	11,632,121	11,888,758	3,710,465	3,234,364	15,342,586	15,123,122
Expenses						
Legislative	45,570	23,020	-	-	45,570	23,020
General government	2,039,505	1,851,829	-	-	2,039,505	1,851,829
Public safety	4,551,519	4,210,447	-	-	4,551,519	4,210,447
Public works	3,393,176	3,645,709	-	-	3,393,176	3,645,709
Culture and recreation	1,488,281	1,751,072	-	-	1,488,281	1,751,072
Other	170,059	166,575	-	-	170,059	166,575
Interest on long-term debt	513,574	539,911	-	-	513,574	539,911
Water and sewer	-	-	2,957,057	2,941,334	2,957,057	2,941,334
Total expenses	12,201,684	12,188,563	2,957,057	2,941,334	15,158,741	15,129,897
Increase (decrease) before transfers	(569,563)	(299,805)	753,408	293,030	183,845	(6,775)
Transfers in (out)	-	(150,000)	-	150,000	-	-
Increase (decrease) in net assets	(569,563)	(449,805)	753,408	443,030	183,845	(6,775)
Net assets – beginning	19,692,409	20,142,214	8,021,349	7,578,319	27,713,758	27,720,533
Net assets – ending	\$19,122,846	\$19,692,409	\$8,774,757	\$8,021,349	\$27,897,603	\$27,713,758

Governmental Activities The preceding table shows that the governmental activities decreased the City's net assets by \$569,563 during this fiscal year. The decrease is primarily the result of depreciation on capital assets during the year.

Business-type Activities Business-type activities increased the City's net assets by \$753,408 during the year. This increase is primarily the result of additional charges for services due to increased usage combined with amended water and sewer rates.

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 \$3,962,429, an increase of \$48,982 from the prior year. This was primarily due to the reduced level of street construction 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 \$11,060 relates to prepaid assets, restricted fund balance of \$18,409 relates to public safety, committed fund balance of \$200,000 relates to future activities committed to by the Board, assigned fund balance of \$200,000 relates to budget stabilization, and \$186,200 is assigned for next year's expenditures. Unassigned fund balance represents \$1,863,916 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 21% 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 assets of \$753,408 due to additional charges for services resulting from environmental factors leading to increased usage combined with amended rates.

Budgetary Highlights

Revenues in the General Fund were \$196,598 more than budgeted. This is mostly due to additional state shared sales tax received.

Expenditures and transfers out in the General Fund were \$338,925 less than final budget amounts. This is primarily due to reduced cost for utility service.

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, 2012, amounted to \$33,446,106 (net of accumulated depreciation). Of this amount, \$25,000,938 was for its governmental activities and \$8,445,168 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Current year additions included numerous vehicles, a water main project as well as several road projects.

Additional information on the City's capital assets can be found in Note 5 to these financial statements.

Long-term debt At the end of the current fiscal year, the City had total long-term debt, including compensated absences, outstanding of \$11,865,995. Of this amount, \$11,510,408 was for governmental activities while \$355,587 was for business-type activities.

The City's total long-term debt decreased by approximately \$496,000 during the current fiscal year primarily as a result of a refunding and payment of scheduled debt service requirements.

Additional information on the City's long-term debt can be found in Note 8 to these 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 2013 fiscal year:

- The budget for next year includes the same millage rate that was levied for the year ending June 30, 2012. The millage rate levied was 13.5195 for both fiscal years ended June 30, 2012 and 2011. There was no rollback of the millage rate due to the Headlee Amendment. This is due to a large number of properties in the City declining in value, however the rate of decline has slowed.
- For the fiscal year 2012-13, the overall assessed value increased by .3% and the taxable value increased by 2.09%. This will result in a projected increase of \$100,000 in property tax revenue to the City. The year-to-date data from home sales for 2012 shows a SEV increase of over 4% for the upcoming year.
- The State of Michigan continues to face budget deficits. It was anticipated that all statutory revenue sharing to municipalities will be eliminated in the future. The budget, once again, for the City's General Fund did not include any statutory revenue sharing. The State of Michigan has once again implemented the Economic Vitality Incentive Program (EVIP) which should restore some of these dollars, at least for the current fiscal year.
- The City has responded to the economic downturn and pressure on revenues by reducing program and operating expenses, increasing user fees and by making changes to employee benefits. The budget for next year maintained many of the cost cutting measures previously taken. There was a 1% cost of living wage increase this year for union and non-union employees as was the case in 2011. The two years prior had zero percent increases. The City made several cuts to programs and activities in order to balance the budget with declining revenues.
- The General Fund expense budget for next year is \$128,400 more than last fiscal year's budgeted amount. Budgeted revenues are less than budgeted expenditures by \$186,200. An ending fund balance of 23.43% of operating expenditures is anticipated.
- Water and sewer rates remained unchanged this upcoming fiscal year. There was a mid-year adjustment to the readiness-to-serve charge which took effect October 1st, 2011 which should be sufficient to cover operational and capital costs for the foreseeable future.
- All three of the City union contracts were extended for a two year term (through June 30, 2014) and costs associated with the contracts were calculated into this 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 ASSETS

JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,487,507	\$ 206,118	\$ 1,693,625
Investments	3,787,448	-	3,787,448
Accounts receivable	122,416	790,218	912,634
Special assessments receivable	61,874	-	61,874
Due from other governments	281,339	-	281,339
Inventory	62,868	53,900	116,768
Prepaid and other assets	41,648	1,329	42,977
Debt issuance costs, net	165,250	-	165,250
Capital assets			
Land	2,124,000	-	2,124,000
Depreciable capital assets, net	22,876,938	8,445,168	31,322,106
Net other post employment benefits asset	235,072	-	235,072
	<u>31,246,360</u>	<u>9,496,733</u>	<u>40,743,093</u>
Total assets			
Liabilities			
Accounts payable	280,319	354,767	635,086
Accrued liabilities	290,421	11,622	302,043
Unearned revenue	42,366	-	42,366
Noncurrent liabilities			
Compensated absences	205,499	12,299	217,798
Due within one year	412,000	103,008	515,008
Due in more than one year	10,892,909	240,280	11,133,189
	<u>12,123,514</u>	<u>721,976</u>	<u>12,845,490</u>
Total liabilities			
Net assets			
Invested in capital assets, net of related debt	13,861,279	8,101,880	21,963,159
Restricted for			
Major and local streets	1,326,577	-	1,326,577
Capital projects	66,541	-	66,541
Public safety	18,409	-	18,409
Debt service	67,962	-	67,962
Unrestricted	3,782,078	672,877	4,454,955
	<u>19,122,846</u>	<u>8,774,757</u>	<u>27,897,603</u>
Total net assets	<u>\$ 19,122,846</u>	<u>\$ 8,774,757</u>	<u>\$ 27,897,603</u>

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, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
Legislative	\$ 45,570	\$ -	\$ -	\$ -	\$ (45,570)
General government	2,039,505	282,689	-	-	(1,756,816)
Public safety	4,551,519	39,516	5,396	-	(4,506,607)
Public works	3,393,176	318,014	718,457	354,094	(2,002,611)
Recreation and culture	1,488,281	970,512	-	(1,542)	(519,311)
Other	170,059	-	-	-	(170,059)
Interest on long-term debt	513,574	-	-	-	(513,574)
Total governmental activities	<u>12,201,684</u>	<u>1,610,731</u>	<u>723,853</u>	<u>352,552</u>	<u>(9,514,548)</u>
Business-type activities					
Water and sewer	2,957,057	3,560,375	-	150,000	753,318
Total primary government	<u>\$ 15,158,741</u>	<u>\$ 5,171,106</u>	<u>\$ 723,853</u>	<u>\$ 502,552</u>	<u>\$ (8,761,230)</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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (9,514,548)	\$ 753,318	\$ (8,761,230)
General revenues			
Property taxes	7,877,485	-	7,877,485
State shared revenues	843,650	-	843,650
Cable franchise fees	188,716	-	188,716
Unrestricted investment earnings	35,134	90	35,224
Transfers - internal activities	-	-	-
	<u>8,944,985</u>	<u>90</u>	<u>8,945,075</u>
Total general revenues and transfers			
Change in net assets	(569,563)	753,408	183,845
Net assets, beginning of year	<u>19,692,409</u>	<u>8,021,349</u>	<u>27,713,758</u>
Net assets, end of year	<u>\$ 19,122,846</u>	<u>\$ 8,774,757</u>	<u>\$ 27,897,603</u>

(concluded)

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

CITY OF EAST GRAND RAPIDS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

	<u>General</u>	<u>Major Streets</u>	<u>Wealthy Pool</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 58,544	\$ 733,519	\$ 21,701	\$ 347,993	\$ 1,161,757
Investments	2,546,803	-	-	252,653	2,799,456
Accounts receivable	104,575	-	-	-	104,575
Special assessment receivable	-	-	-	61,874	61,874
Due from other governments	173,073	78,644	-	29,622	281,339
Inventory	-	9,528	-	9,528	19,056
Prepaid items	11,060	1,349	-	1,359	13,768
Total assets	<u>\$ 2,894,055</u>	<u>\$ 823,040</u>	<u>\$ 21,701</u>	<u>\$ 703,029</u>	<u>\$ 4,441,825</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 262,783	\$ 4,991	\$ -	\$ 737	\$ 268,511
Accrued liabilities	109,321	5,639	-	5,639	120,599
Deferred revenue	42,366	-	-	47,920	90,286
Total liabilities	<u>414,470</u>	<u>10,630</u>	<u>-</u>	<u>54,296</u>	<u>479,396</u>
Fund balances					
Nonspendable					
Inventory	-	9,528	-	9,528	19,056
Prepays	11,060	1,349	-	1,359	13,768
Restricted					
Streets	-	801,533	-	525,044	1,326,577
Public safety	18,409	-	-	-	18,409
Committed					
Turf replacement	200,000	-	-	-	200,000
Assigned					
Debt service	-	-	21,701	46,261	67,962
Capital projects	-	-	-	66,541	66,541
Stabilization	200,000	-	-	-	200,000
Subsequent year expenditures	186,200	-	-	-	186,200
Unassigned	1,863,916	-	-	-	1,863,916
Total fund balances	<u>2,479,585</u>	<u>812,410</u>	<u>21,701</u>	<u>648,733</u>	<u>3,962,429</u>
Total liabilities and fund balances	<u>\$ 2,894,055</u>	<u>\$ 823,040</u>	<u>\$ 21,701</u>	<u>\$ 703,029</u>	<u>\$ 4,441,825</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 ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Fund balances - total governmental funds	\$ 3,962,429
Amounts reported for <i>governmental activities</i> in the statement of net assets 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 - capital assets (net of accumulated depreciation)	21,269,809
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	47,920
Certain expenditure are recognized in the fund when paid but are recognized in government-wide financial statement when due.	
Add - net other postemployment benefit asset	235,072
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 assets of governmental activities accounted for in the internal service funds	2,940,878
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Add - bond issuance costs	165,250
Deduct - compensated absences payable	(195,387)
Deduct - bonds payable	(11,304,909)
Deduct - accrued interest on bonds payable	<u>(122,216)</u>
Net assets of governmental activities	<u>\$ 19,122,846</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, 2012

	<u>General</u>	<u>Major Streets</u>	<u>Wealthy Pool</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 7,240,404	\$ -	\$ 139,183	\$ 497,898	\$ 7,877,485
Intergovernmental revenues					
State	849,984	500,505	-	217,952	1,568,441
Licenses and permits	247,316	-	-	-	247,316
Charges for services	1,359,054	-	-	-	1,359,054
Fines	36,936	-	-	-	36,936
Special assessments	-	-	-	13,953	13,953
Investment earnings	173,204	1,192	135	8,555	183,086
Total revenues	<u>9,906,898</u>	<u>501,697</u>	<u>139,318</u>	<u>738,358</u>	<u>11,286,271</u>
Expenditures					
Current					
Legislative	33,854	-	-	-	33,854
General government	1,872,477	-	21,464	-	1,893,941
Public safety	4,283,054	-	-	-	4,283,054
Public works	1,052,741	473,744	-	892,221	2,418,706
Culture and recreation	1,205,060	-	-	-	1,205,060
Other	168,141	-	-	-	168,141
Debt service					
Principal	-	-	80,000	305,000	385,000
Interest	-	-	55,752	467,864	523,616
Capital outlay	280,601	-	-	47,349	327,950
Total expenditures	<u>8,895,928</u>	<u>473,744</u>	<u>157,216</u>	<u>1,712,434</u>	<u>11,239,322</u>
Revenues over (under) expenditures	<u>1,010,970</u>	<u>27,953</u>	<u>(17,898)</u>	<u>(974,076)</u>	<u>46,949</u>
Other financing sources (uses)					
Issuance of long-term debt	-	-	1,243,000	-	1,243,000
Repayment of long-term debt	-	-	(1,220,000)	-	(1,220,000)
Transfers in	-	422,000	-	901,450	1,323,450
Transfers out	(1,046,417)	(275,450)	-	(22,550)	(1,344,417)
Total other financing sources (uses)	<u>(1,046,417)</u>	<u>146,550</u>	<u>23,000</u>	<u>878,900</u>	<u>2,033</u>
Net changes in fund balances	(35,447)	174,503	5,102	(95,176)	48,982
Fund balances, beginning of year	<u>2,515,032</u>	<u>637,907</u>	<u>16,599</u>	<u>743,909</u>	<u>3,913,447</u>
Fund balances, end of year	<u>\$ 2,479,585</u>	<u>\$ 812,410</u>	<u>\$ 21,701</u>	<u>\$ 648,733</u>	<u>\$ 3,962,429</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, 2012

Net changes in fund balances - total governmental funds	\$ 48,982
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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	601,106
Deduct - depreciation expense	(1,387,814)

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	(13,954)
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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 assets. 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 assets.

Deduct - bond issue	(1,243,000)
Add - principal payments on debt	1,605,000
Deduct - amortization of bond discount	(899)

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.

Add - decrease in compensated absences	31,199
Add - bond issuance costs	21,464
Deduct - amortization of bond issuance costs	(9,868)
Deduct - decrease in net other postemployment benefits asset	(106,190)
Add - decrease in accrued interest	10,042

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 assets from the internal service funds	<u>(125,631)</u>
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Change in net assets of governmental activities	<u>\$ (569,563)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2012

	Enterprise Fund Water and Sewer	Governmental Activities Internal Service Funds
Assets		
Current assets		
Cash and pooled investments	\$ 206,118	\$ 325,750
Investments	-	987,992
Accounts receivable	790,218	17,841
Prepaid and other assets	1,329	27,880
Inventory	53,900	43,812
Total current assets	1,051,565	1,403,275
Capital assets		
Depreciable capital assets, net	8,445,168	1,607,129
Total assets	9,496,733	3,010,404
Liabilities		
Current liabilities		
Accounts payable	354,767	11,808
Accrued liabilities	11,622	47,606
Current portion of compensated absences	9,839	8,183
Current portion of long-term debt	103,008	-
Total current liabilities	479,236	67,597
Long-term liabilities		
Compensated absences, net of current portion	2,460	1,929
Bonds payable, net of current portion	240,280	-
Total long-term liabilities	242,740	1,929
Total liabilities	721,976	69,526
Net assets		
Investment in capital assets, net of related debt	8,101,880	1,607,129
Unrestricted	672,877	1,333,749
Total net assets	\$ 8,774,757	\$ 2,940,878

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 ASSETS**

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Funds</u>
Operating revenue		
Charges for services	\$ 3,483,091	\$ 1,721,881
Other	77,284	-
Total operating revenue	<u>3,560,375</u>	<u>1,721,881</u>
Operating expense		
Personnel services	466,081	170,772
Contractual services	711,888	314,031
Materials and supplies	115,511	263,280
Equipment	84,865	4,759
Water purchases	941,782	-
Claims	7,771	769,718
Administration	162,464	122,625
Depreciation	406,329	229,004
Miscellaneous	45,070	-
Total operating expense	<u>2,941,761</u>	<u>1,874,189</u>
Operating income (loss)	<u>618,614</u>	<u>(152,308)</u>
Non-operating revenue (expense)		
Investment earnings	90	5,710
Interest expense	(15,296)	-
Total non-operating revenue (expense)	<u>(15,206)</u>	<u>5,710</u>
Income (loss) before transfers and contributions	<u>603,408</u>	<u>(146,598)</u>
Capital contributions	150,000	-
Transfers in	-	20,967
Total transfers and contributions	<u>150,000</u>	<u>20,967</u>
Changes in net assets	753,408	(125,631)
Net assets, beginning of year	<u>8,021,349</u>	<u>3,066,509</u>
Net assets, end of year	<u>\$ 8,774,757</u>	<u>\$ 2,940,878</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, 2012

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Funds</u>
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 1,768,093
Receipts from customers and users	3,318,189	-
Payments to employees	(468,759)	(168,947)
Payments to suppliers	<u>(2,101,087)</u>	<u>(1,568,607)</u>
Net cash provided by (used in) operating activities	<u>748,343</u>	<u>30,539</u>
Cash flows from non-capital financing activities		
Transfers in	<u>-</u>	<u>20,967</u>
Cash flows from capital and related financing activities		
Interest expense	(15,296)	-
Principal paid on bonds	(99,296)	-
Acquisitions of capital assets	<u>(485,444)</u>	<u>(434,137)</u>
Net cash provided by (used in) capital and related financing activities	<u>(600,036)</u>	<u>(434,137)</u>
Cash flows from investing activities		
Net investment activity	-	(5,069)
Interest income	<u>90</u>	<u>5,709</u>
Net cash provided by (used in) investing activities	<u>90</u>	<u>640</u>
Net increase (decrease) in cash and pooled investments	148,397	(381,991)
Cash and pooled investments, beginning of year	<u>57,721</u>	<u>707,741</u>
Cash and pooled investments, end of year	<u>\$ 206,118</u>	<u>\$ 325,750</u>
Cash flows from operating activities		
Operating income (loss)	\$ 618,614	\$ (152,308)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	406,329	229,004
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	(242,186)	46,212
Prepaid and other assets	(160)	(3,126)
Inventory	(3,405)	10,252
Accounts payable	(28,171)	(66,082)
Accrued liabilities	2,416	(34,198)
Compensated absences	<u>(5,094)</u>	<u>785</u>
Net cash provided by (used in) operating activities	<u>\$ 748,343</u>	<u>\$ 30,539</u>

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS/BALANCE SHEET
JUNE 30, 2012

	Other Postemployment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 8,718
Investments		
Mutual fund	<u>1,039,590</u>	<u>-</u>
Total assets	1,039,590	<u>\$ 8,718</u>
Liabilities		
Due to other governmental units	<u>-</u>	<u>\$ 8,718</u>
Net assets		
Held in trust for other postemployment benefits	<u>\$ 1,039,590</u>	

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Other Postemployment Benefit <u>Trust</u>
Additions	
Contributions:	
Employer	\$ 190,368
Investment earnings (losses)	<u>22,270</u>
Total Additions	212,638
Deductions	
Benefits	<u>90,368</u>
Net increase (decrease)	122,270
Net assets, beginning of year	<u>917,320</u>
Net assets, end of year	<u>\$ 1,039,590</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, 2012

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 assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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, 2012

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 *Wealthy Pool Debt Service Fund* is used to account for resources accumulated and payments made for principal and interest on the Wealthy Street Pool bond.

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, 2012

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 Postemployment 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.

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

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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 expenditures 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 by activity. Thus the legal level of budgetary control is at the activity level. Supplemental appropriations were necessary during the year.

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.

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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.

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

Deferred Revenue

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

Fees received in advance	\$42,366
Special assessments	47,920
	<hr/>
Total governmental funds	\$90,286
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CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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 assets 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 assets of the individual enterprise funds. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

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 assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, 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 and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Assets and Fund Balance Reporting

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 action 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.

Stabilization amounts are established by formal action of the City Commission. Any increases or use of stabilization amounts are required to be authorized by the City Commission.

When multiple net asset/fund balance classifications are available for use it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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 15. 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. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended June 30, 2012, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General fund			
Legislative			
City Commission	\$ 36,600	\$ 45,570	\$(8,970)
General Government			
City manager	256,600	266,470	(9,870)
State Programs			
Training	5,800	5,893	(93)
Local Streets fund			
Transfers out	-	3,550	(3,550)

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3. 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	\$1,693,625	\$ 8,718	\$1,702,343
Investments	3,787,448	1,039,590	4,827,038
	\$5,481,073	\$1,048,308	\$6,529,381

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

Deposits	\$2,279,448
Investments	4,249,433
Petty cash	500
Total	\$6,529,381

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, \$1,516,541 of the City's bank balance of \$2,269,041 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	\$3,209,843	Unrated	
Other Postemployment Benefits Trust Fund				
ICMA Conservative Growth Fund	N/A	1,039,590	3 stars	Morningstar
Total		\$4,249,433		

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012 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	24%	0-4
Certificates of deposits	56%	0-2
Money markets and other pools	24%	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.

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.

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2012 are as follows:

<u>Transfers out</u>	<u>Transfers in</u>			<u>Total</u>
	Major streets fund	Nonmajor governmental funds	Internal service funds	
General fund	\$412,000	\$617,000	\$17,417	\$1,046,417
Major streets fund	-	275,450	-	275,450
Nonmajor governmental funds	10,000	9,000	3,550	22,550
Total	\$422,000	\$901,450	\$20,967	\$1,344,417

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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.

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>2,124,000</u>	<u>-</u>	<u>-</u>	<u>2,124,000</u>
Capital assets, being depreciated				
Land improvements	1,834,273	99,494	-	1,933,767
Buildings	12,370,380	47,349	-	12,417,729
Building improvements	3,512,447	8,986	-	3,521,433
Vehicles and equipment	3,864,416	525,320	-	4,389,736
Infrastructure	15,329,459	354,094	-	15,683,553
Total capital assets, being depreciated	<u>36,910,975</u>	<u>1,035,243</u>	<u>-</u>	<u>37,946,218</u>
Less accumulated depreciation for				
Land improvements	322,045	97,663	-	419,708
Buildings	2,165,193	400,170	-	2,565,363
Building improvements	1,807,067	179,669	-	1,986,736
Vehicles and equipment	2,330,455	267,320	-	2,597,775
Infrastructure	6,827,702	671,996	-	7,499,698
Total accumulated depreciation	<u>13,452,462</u>	<u>1,616,818</u>	<u>-</u>	<u>15,069,280</u>
Net capital assets, being depreciated	<u>23,458,513</u>	<u>(581,575)</u>	<u>-</u>	<u>22,876,938</u>
Governmental Activities capital assets, net	<u>\$ 25,582,513</u>	<u>\$(581,575)</u>	<u>\$ -</u>	<u>\$ 25,000,938</u>
Business-type Activities				
Capital assets being depreciated				
Sewer system	\$8,589,558	\$ 8,260	\$ -	\$8,597,818
Water system	6,332,954	477,184	-	6,810,138
Lift station	390,983	-	-	390,983
Water tower	303,228	-	-	303,228
Drains	1,530,664	-	-	1,530,664
Meters	350,271	-	-	350,271
Total capital assets, being depreciated	<u>17,497,658</u>	<u>485,444</u>	<u>-</u>	<u>17,983,102</u>
Less accumulated depreciation for				
Sewer system	5,109,767	173,486	-	5,283,253
Water system	2,111,694	118,452	-	2,230,146
Lift station	241,876	17,589	-	259,465
Water tower	208,710	2,754	-	211,464
Drains	1,223,125	76,535	-	1,299,660
Meters	236,433	17,513	-	253,946
Total accumulated depreciation	<u>9,131,605</u>	<u>406,329</u>	<u>-</u>	<u>9,537,934</u>
Business-type Activities capital assets, net	<u>\$8,366,053</u>	<u>\$ 79,115</u>	<u>\$ -</u>	<u>\$8,445,168</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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

Governmental Activities	
General government	\$ 65,227
Public safety	163,762
Public works	917,345
Recreation and culture	241,480
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>229,004</u>
Total depreciation expense - governmental activities	<u><u>\$1,616,818</u></u>
Business-type Activities	
Water and sewer	<u>\$406,329</u>

6. 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 flat rate, which for the current year was \$694,092. Employees are required to contribute to the plan from 0% to 5% of covered payroll dependent on bargaining unit to the Plan. 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, 2012, the City's annual pension cost of \$694,092 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2010 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 4.2% 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 a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the most recent actuarial valuation, was 14 years.

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/10	\$526,020	100%	\$ -
6/30/11	604,620	100%	-
6/30/12	694,092	100%	-

Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/10	\$11,286,065	\$17,905,375	\$6,619,310	63%	\$581,999	1137%

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 \$28,505 and the employees' contribution was \$28,505.

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 \$157,660 and the employees' contribution was \$10,511.

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 \$170,118 and the employees' contribution was \$50,313.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

7. 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 publicly available financial report.

The City contributes to the Plan as determined by the City Commission. The annual required contribution (ARC) was \$319,904 while the City contributed \$100,000 to the plan. The Plan also paid \$90,368 in direct payments for retirees from the health insurance internal service fund to provide insurance coverage for 9 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	\$319,904
Interest on Net OPEB obligation	20,476
Adjustment to annual required contribution	<u>(43,822)</u>
Annual OPEB cost (expense)	296,558
Contribution made	<u>190,368</u>
Decrease in net OPEB asset	(106,190)
Net OPEB asset, beginning of year	<u>341,262</u>
Net OPEB asset, end of year	<u><u>\$235,072</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 Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset
6/30/10	\$232,087	143%	\$393,903
6/30/11	233,844	77%	341,262
6/30/12	296,558	34%	235,072

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)
6/30/12	\$1,039,590	\$3,444,322	\$2,404,732	30%	\$4,232,877	56.8%

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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, 20112 actuarial valuation of the Plan utilized the individual entry age actuarial cost method. The actuarial assumptions included: a rate of return on investments of 3%, projected salary increases of 2.8% attributable to inflation, and projected healthcare benefit increases of 5%. 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.

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Governmental Activities					
\$1,775,000 Unlimited Tax General Obligation Bonds Series 2002; due in annual installments of \$60,000 to \$165,000 through April 2022, plus interest at 3.90% to 4.90%	\$1,300,000	\$ -	\$1,300,000	\$ -	\$ -
\$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%	8,320,000	-	110,000	8,210,000	110,000
\$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%	2,055,000	-	195,000	1,860,000	205,000

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
\$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%	\$ -	\$1,243,000	\$ -	\$ 1,243,000	\$ 97,000
Total	11,675,000	1,243,000	1,605,000	11,313,000	412,000
Unamortized discount	(8,990)	-	(899)	(8,091)	-
Accrued compensated absences	235,913	168,018	198,432	205,499	164,399
Total Governmental Activities	\$11,901,923	\$1,411,018	\$1,802,533	\$11,510,408	\$576,399
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%	\$ 442,584	\$ -	\$99,296	\$343,288	\$103,008
Accrued employee benefits	17,393	9,044	14,138	12,299	9,839
Total Business-type Activities	\$459,977	\$ 9,044	\$ 113,434	\$355,587	\$112,847

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 412,000	\$ 483,597	\$103,008	\$11,314
2014	433,000	467,246	107,648	7,469
2015	461,000	452,760	64,960	4,179
2016	508,000	437,230	67,672	1,440
2017	541,000	419,744	-	-
2018-2022	2,848,000	1,779,258	-	-
2023-2027	2,290,000	1,281,532	-	-
2027-2032	2,720,000	667,876	-	-
2033-2036	1,100,000	80,438	-	-
Total	\$11,313,000	\$6,069,681	\$343,288	\$24,402

During the year, the City issued \$1,243,000 of limited tax general obligation refunding bonds to provide resources to refund the Unlimited Tax General Obligation Bonds Series 2002. This refunding was undertaken to reduce total debt service payments by \$197,545, which resulted in an economic gain of \$176,653.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

9. RISK MANAGEMENT

The City is self-funded for employees' health benefits. The claims liability of \$45,249 reported at June 30, 2012 is based on the requirements of Statement No. 10 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 care 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, 2012 and 2011 were as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2011	\$ 80,397	\$1,027,743	\$1,027,653	\$80,487
2012	80,487	507,770	543,008	45,249

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.

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.

10. 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.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

11. 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 \$59,414 with related direct and indirect expenditures in excess of that amount.

12. COMMITMENTS

At year end the City had construction commitments of approximately \$1,385,000.

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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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 7,248,000	\$ 7,248,000	\$ 7,240,404	\$ (7,596)
Intergovernmental revenues				
State	699,200	699,200	849,984	150,784
Licenses and permits	192,000	192,000	247,316	55,316
Charges for services	1,376,100	1,376,100	1,359,054	(17,046)
Fines	41,000	41,000	36,936	(4,064)
Investment earnings	154,000	154,000	173,204	19,204
Total revenues	<u>9,710,300</u>	<u>9,710,300</u>	<u>9,906,898</u>	<u>196,598</u>
Expenditures				
Current				
Legislative	26,600	36,600	33,854	2,746
General government	1,945,600	1,998,100	1,872,477	125,623
Public safety	4,284,100	4,320,100	4,283,054	37,046
Public works	1,072,300	1,114,670	1,052,741	61,929
Culture and recreation	1,238,100	1,274,600	1,205,060	69,540
Other	129,000	169,000	168,141	859
Capital Outlay	293,200	339,200	280,601	58,599
Total expenditures	<u>8,988,900</u>	<u>9,252,270</u>	<u>8,895,928</u>	<u>356,342</u>
Revenues over (under) expenditures	<u>721,400</u>	<u>458,030</u>	<u>1,010,970</u>	<u>(159,744)</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(1,029,000)	(1,029,000)	(1,046,417)	(17,417)
Total other financing sources (uses)	<u>(1,029,000)</u>	<u>(1,029,000)</u>	<u>(1,046,417)</u>	<u>(17,417)</u>
Net changes in fund balance	(307,600)	(570,970)	(35,447)	535,523
Fund balance, beginning of year	<u>2,515,032</u>	<u>2,515,032</u>	<u>2,515,032</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,207,432</u>	<u>\$ 1,944,062</u>	<u>\$ 2,479,585</u>	<u>\$ 535,523</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, 2012

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 454,484	\$ 454,484	\$ 500,505	\$ 46,021
Investment earnings	<u>800</u>	<u>800</u>	<u>1,192</u>	<u>392</u>
Total revenues	<u>455,284</u>	<u>455,284</u>	<u>501,697</u>	<u>46,413</u>
Expenditures				
Current				
Public works				
Street maintenance	437,600	437,600	342,566	95,034
Street construction	180,000	180,000	161	179,839
Street administration	91,200	96,200	92,958	3,242
Engineering	<u>54,350</u>	<u>54,350</u>	<u>38,059</u>	<u>16,291</u>
Total expenditures	<u>763,150</u>	<u>768,150</u>	<u>473,744</u>	<u>294,406</u>
Revenues over (under) expenditures	<u>(307,866)</u>	<u>(312,866)</u>	<u>27,953</u>	<u>340,819</u>
Other financing sources				
Transfers in	422,000	422,000	422,000	-
Transfers out	<u>(280,000)</u>	<u>(280,000)</u>	<u>(275,450)</u>	<u>4,550</u>
Total other financing sources (uses)	<u>142,000</u>	<u>142,000</u>	<u>146,550</u>	<u>4,550</u>
Net changes in fund balance	114,134	(170,866)	174,503	345,369
Fund balance, beginning of year	<u>637,907</u>	<u>637,907</u>	<u>637,907</u>	<u>-</u>
Fund balance, end of year	<u>\$ 752,041</u>	<u>\$ 467,041</u>	<u>\$ 812,410</u>	<u>\$ 345,369</u>

CITY OF EAST GRAND RAPIDS

REQUIRED SUPPLEMENTARY INFORMATION

MERS DEFINED BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ 12,319,769	\$ 18,149,319	\$ 5,829,550	67.88%	\$ 707,396	824.09%
12/31/2009	11,693,346	18,022,984	6,329,638	64.88%	673,192	940.24%
12/31/2010	11,286,065	17,905,375	6,619,310	63.03%	581,999	1137.34%

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

RETIREE HEALTH OTHER POSTEMPLOYMENT 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>
6/30/2006	\$ -	\$ 1,782,803	\$ 1,782,803	0.00%	\$ 3,635,815	49.03%
6/30/2011	817,320	2,607,925	1,790,605	31.34%	4,092,467	43.75%
6/30/2012	1,039,590	3,444,322	2,404,732	30.18%	4,232,877	56.81%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2009	\$ 222,093	\$ 517,477	233%
2010	232,087	330,892	143%
2011	233,844	181,203	77%
2012	296,558	190,368	64%

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, 2012

Revenues	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Taxes				
Property taxes	\$ 7,220,000	\$ 7,220,000	\$ 7,219,520	\$ (480)
Interest and penalties on property taxes	28,000	28,000	20,884	(7,116)
Total taxes	7,248,000	7,248,000	7,240,404	(7,596)
Intergovernmental revenue				
State shared revenue	692,400	692,400	843,650	151,250
State grants	6,800	6,800	6,334	(466)
Total intergovernmental revenue	699,200	699,200	849,984	150,784
Licenses and permits				
Business licenses	12,000	12,000	14,225	2,225
Cable television franchise fees	150,000	150,000	188,716	38,716
Building permits	25,000	25,000	31,475	6,475
Other	5,000	5,000	12,900	7,900
Total licenses and permits	192,000	192,000	247,316	55,316
Charges for services				
Administrative charges	130,000	130,000	130,000	-
Recreation fees	912,400	912,400	839,639	(72,761)
Grounds maintenance fees	133,800	133,800	129,686	(4,114)
Clerk's services	600	600	1,273	673
Right of way fees	34,000	34,000	34,468	468
Other	165,300	165,300	223,988	58,688
Total charges for services	1,376,100	1,376,100	1,359,054	(17,046)
Fines and penalties	41,000	41,000	36,936	(4,064)
Interest and rentals				
Interest	20,000	20,000	19,542	(458)
Cable tower rental	134,000	134,000	153,662	19,662
Total interest and rentals	154,000	154,000	173,204	19,204
Total revenues	\$ 9,710,300	\$ 9,710,300	\$ 9,906,898	\$ 196,598

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CITY OF EAST GRAND RAPIDS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Commission				
Personnel services	\$ 8,600	\$ 8,600	\$ 8,141	\$ 459
Contractual services	2,700	7,700	6,088	1,612
Other	15,300	20,300	19,625	675
Total legislative	<u>26,600</u>	<u>36,600</u>	<u>33,854</u>	<u>2,746</u>
General government				
City Manager				
Personnel services	241,900	246,900	255,173	(8,273)
Contractual services	3,500	3,500	4,801	(1,301)
Equipment	200	200	353	(153)
Other	6,000	6,000	6,143	(143)
Total city manager	<u>251,600</u>	<u>256,600</u>	<u>266,470</u>	<u>(9,870)</u>
City Assessor				
Personnel services	102,300	102,300	98,142	4,158
Operating supplies	4,600	4,600	4,601	(1)
Equipment	200	200	11	189
Other	1,700	1,700	1,654	46
Total City Assessor	<u>108,800</u>	<u>108,800</u>	<u>104,408</u>	<u>4,392</u>
City Attorney				
Professional services	210,000	250,000	248,648	1,352
Elections				
Personnel services	12,900	12,900	7,899	5,001
Contractual services	1,000	1,000	1,222	(222)
Operating supplies	4,000	4,000	3,611	389
Total Elections	<u>17,900</u>	<u>17,900</u>	<u>12,732</u>	<u>5,168</u>

(continued)

CITY OF EAST GRAND RAPIDS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Controller-Clerk-Treasurer				
Personnel services	\$ 501,900	\$ 492,900	\$ 472,211	\$ 20,689
Contractual services	4,000	13,000	16,381	(3,381)
Professional services	15,000	15,000	13,700	1,300
Operating supplies	30,000	30,000	25,677	4,323
Repairs and maintenance	39,000	46,500	47,629	(1,129)
Equipment	800	800	491	309
Other	11,700	11,700	16,671	(4,971)
Total Controller-Clerk-Treasurer	602,400	609,900	592,760	17,140
City buildings				
Personnel services	212,600	212,600	188,625	23,975
Contractual services	462,200	462,200	373,750	88,450
Operating supplies	29,200	29,200	27,862	1,338
Repairs and maintenance	33,000	33,000	39,362	(6,362)
Equipment	12,500	12,500	16,377	(3,877)
Other	5,400	5,400	1,483	3,917
Total city buildings	754,900	754,900	647,459	107,441
Total general government	1,945,600	1,998,100	1,872,477	125,623
Public Safety				
General activity				
Personnel services	3,749,500	3,779,500	3,793,913	(14,413)
Contractual services	98,000	98,000	103,231	(5,231)
Operating supplies	76,000	76,000	52,104	23,896
Repairs and maintenance	9,000	9,000	4,565	4,435
Equipment	195,000	195,000	184,043	10,957
Other	30,500	30,500	24,684	5,816
Total general activity	4,158,000	4,188,000	4,162,540	25,460
State programs				
Training	5,800	5,800	5,893	(93)
Drug seizure program				
Operating supplies	1,000	1,000	-	1,000
Repairs and maintenance	1,000	1,000	-	1,000
Other	4,000	4,000	-	4,000
Total drug seizure program	6,000	6,000	-	6,000

(continued)

CITY OF EAST GRAND RAPIDS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Inspection				
Personnel services	\$ 97,300	\$ 103,300	\$ 99,188	\$ 4,112
Contractual services	13,000	13,000	11,166	1,834
Operating supplies	1,000	1,000	1,373	(373)
Equipment	3,000	3,000	2,894	106
Total inspection	<u>114,300</u>	<u>120,300</u>	<u>114,621</u>	<u>5,679</u>
Total public safety	<u>4,284,100</u>	<u>4,320,100</u>	<u>4,283,054</u>	<u>37,046</u>
Public Works				
Engineering				
Personnel services	49,200	49,200	40,354	8,846
Contractual services	800	800	908	(108)
Operating supplies	1,000	1,000	654	346
Equipment	3,000	3,000	2,928	72
Other	200	200	-	200
Total engineering	<u>54,200</u>	<u>54,200</u>	<u>44,844</u>	<u>9,356</u>
Street lighting				
Contractual services	92,000	92,000	90,755	1,245
Repairs and maintenance	7,000	7,000	4,158	2,842
Total street lighting	<u>99,000</u>	<u>99,000</u>	<u>94,913</u>	<u>4,087</u>
Wealthy streetscape maintenance				
Personnel services	6,100	6,100	6,795	(695)
Contractual services	66,100	66,100	33,007	33,093
Operating supplies	10,900	10,900	10,638	262
Repairs and maintenance	6,200	8,070	15,262	(7,192)
Total wealthy streetscape maintenance	<u>89,300</u>	<u>91,170</u>	<u>65,702</u>	<u>25,468</u>
Waste collection				
Personnel services	144,700	161,200	170,982	(9,782)
Contractual services	108,000	108,000	103,298	4,702
Operating supplies	800	800	800	-
Equipment	80,000	80,000	73,172	6,828
Total waste collection	<u>333,500</u>	<u>350,000</u>	<u>348,252</u>	<u>1,748</u>

(continued)

CITY OF EAST GRAND RAPIDS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Lake restoration				
Contractual services	\$ 8,000	\$ 8,000	\$ 7,466	\$ 534
Tree maintenance and removal				
Personnel services	136,000	160,000	147,265	12,735
Contractual services	34,200	34,200	34,640	(440)
Repairs and maintenance	1,000	1,000	770	230
Equipment	10,000	10,000	16,816	(6,816)
Tree maintenance and removal	<u>181,200</u>	<u>205,200</u>	<u>199,491</u>	<u>5,709</u>
Grounds maintenance				
Personnel services	167,900	167,900	160,574	7,326
Contractual services	1,100	1,100	1,165	(65)
Operating supplies	20,800	20,800	19,502	1,298
Repairs and maintenance	72,100	72,100	79,036	(6,936)
Equipment	45,000	45,000	31,618	13,382
Other	200	200	178	22
Total grounds maintenance	<u>307,100</u>	<u>307,100</u>	<u>292,073</u>	<u>15,027</u>
Total public works	<u>1,072,300</u>	<u>1,114,670</u>	<u>1,052,741</u>	<u>61,929</u>
Culture and recreation				
Parks and recreation				
Personnel services	729,400	742,900	695,315	47,585
Contractual services	133,900	148,900	144,599	4,301
Joint facilities agreement	146,100	146,100	153,302	(7,202)
Operating supplies	37,400	45,400	43,484	1,916
Repairs and maintenance	13,500	13,500	16,668	(3,168)
Equipment	1,200	1,200	433	767
Other	16,700	16,700	16,955	(255)
Total parks and recreation	<u>1,078,200</u>	<u>1,114,700</u>	<u>1,070,756</u>	<u>43,944</u>
Special events				
Personnel services	4,700	4,700	4,263	437
Contractual services	67,000	67,000	50,588	16,412
Operating supplies	54,400	54,400	48,081	6,319
Other	33,800	33,800	31,372	2,428
Total special events	<u>159,900</u>	<u>159,900</u>	<u>134,304</u>	<u>25,596</u>
Total culture and recreation	<u>1,238,100</u>	<u>1,274,600</u>	<u>1,205,060</u>	<u>69,540</u>

(continued)

CITY OF EAST GRAND RAPIDS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other				
Personnel services	\$ 9,000	\$ 9,000	\$ 2,245	\$ 6,755
Contractual services	29,000	29,000	34,967	(5,967)
Insurance premiums	<u>91,000</u>	<u>131,000</u>	<u>130,929</u>	<u>71</u>
Total other	<u>129,000</u>	<u>169,000</u>	<u>168,141</u>	<u>859</u>
Capital outlay				
Commission	-	-	11,716	(11,716)
Manager	28,600	28,600	948	27,652
Controller-Clerk-Treasurer	28,000	28,000	28,559	(559)
City buildings	93,200	93,200	68,056	25,144
Public safety				
General activity	9,100	9,100	8,726	374
Drug seizure program	24,900	54,900	49,276	5,624
Culture and recreation				
Parks	94,400	110,400	111,402	(1,002)
Other	<u>15,000</u>	<u>15,000</u>	<u>1,918</u>	<u>13,082</u>
Total capital outlay	<u>293,200</u>	<u>339,200</u>	<u>280,601</u>	<u>42,663</u>
Total expenditures	<u>\$ 8,988,900</u>	<u>\$ 9,252,270</u>	<u>\$ 8,895,928</u>	<u>\$ 340,406</u>

(concluded)

CITY OF EAST GRAND RAPIDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2012

	Special Revenue		Debt Service		Capital Projects		Total
	Local Streets	Municipal Complex	Streetscape	Streets and Utilities Building	Special Assessments		
Assets							
Cash and pooled investments	\$ 249,145	\$ 46,261	\$ -	\$ 49,708	\$ 2,879	\$ 347,993	
Investments	252,653	-	-	-	-	252,653	
Special assessments receivable	-	-	-	-	61,874	61,874	
Due from other governments	29,622	-	-	-	-	29,622	
Inventory	9,528	-	-	-	-	9,528	
Prepaid items	1,359	-	-	-	-	1,359	
Total assets	\$ 542,307	\$ 46,261	\$ -	\$ 49,708	\$ 64,753	\$ 703,029	
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 737	\$ -	\$ -	\$ -	\$ -	\$ 737	
Accrued liabilities	5,639	-	-	-	-	5,639	
Deferred revenue	-	-	-	-	47,920	47,920	
Total liabilities	6,376	-	-	-	47,920	54,296	
Fund balances							
Nonspendable							
Inventory	9,528	-	-	-	-	9,528	
Prepays	1,359	-	-	-	-	1,359	
Restricted							
Streets	525,044	-	-	-	-	525,044	
Assigned	-	46,261	-	49,708	16,833	112,802	
Total fund balances	535,931	46,261	-	49,708	16,833	648,733	
Total liabilities and fund balances	\$ 542,307	\$ 46,261	\$ -	\$ 49,708	\$ 64,753	\$ 703,029	

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue		Debt Service		Capital Projects		Total
	Local Streets	Municipal Complex	Streetscape	Streets and Utilities Building	Special Assessments		
Revenues							
Taxes	\$ -	\$ 497,898	\$ -	\$ -	\$ -	\$ -	\$ 497,898
Intergovernmental revenues							
State	217,952	-	-	-	-	-	217,952
Special assessments	-	-	-	-	13,953	-	13,953
Investment earnings	1,915	369	-	123	6,148	-	8,555
Total revenues	<u>219,867</u>	<u>498,267</u>	<u>-</u>	<u>123</u>	<u>20,101</u>	<u>-</u>	<u>738,358</u>
Expenditures							
Current							
General government	-	-	-	-	-	-	-
Public works	892,221	-	-	-	-	-	892,221
Debt service							
Principal	-	110,000	195,000	-	-	-	305,000
Interest	-	387,414	80,450	-	-	-	467,864
Capital outlay	-	-	-	47,349	-	-	47,349
Total expenditures	<u>892,221</u>	<u>497,414</u>	<u>275,450</u>	<u>47,349</u>	<u>-</u>	<u>-</u>	<u>1,712,434</u>
Revenues over (under) expenditures	<u>(672,354)</u>	<u>853</u>	<u>(275,450)</u>	<u>(47,226)</u>	<u>20,101</u>	<u>-</u>	<u>(974,076)</u>
Other financing sources (uses)							
Transfers in	626,000	-	275,450	-	-	-	901,450
Transfers out	(3,550)	-	-	-	(19,000)	-	(22,550)
Total other financing sources (uses)	<u>622,450</u>	<u>-</u>	<u>275,450</u>	<u>-</u>	<u>(19,000)</u>	<u>-</u>	<u>878,900</u>
Net changes in fund balances	(49,904)	853	-	(47,226)	1,101	-	(95,176)
Fund balances, beginning of year	<u>585,835</u>	<u>45,408</u>	<u>-</u>	<u>96,934</u>	<u>15,732</u>	<u>-</u>	<u>743,909</u>
Fund balances, end of year	<u>\$ 535,931</u>	<u>\$ 46,261</u>	<u>\$ -</u>	<u>\$ 49,708</u>	<u>\$ 16,833</u>	<u>\$ -</u>	<u>\$ 648,733</u>

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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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 183,486	\$ 183,486	\$ 217,952	\$ 34,466
Investment earnings	<u>3,000</u>	<u>3,000</u>	<u>1,915</u>	<u>(1,085)</u>
Total revenues	<u>186,486</u>	<u>186,486</u>	<u>219,867</u>	<u>33,381</u>
Expenditures				
Current				
Public works				
Street maintenance	450,550	480,550	437,783	42,767
Street construction	300,000	375,000	361,489	13,511
Street administration	<u>91,400</u>	<u>96,400</u>	<u>92,949</u>	<u>3,451</u>
Total expenditures	<u>841,950</u>	<u>951,950</u>	<u>892,221</u>	<u>59,729</u>
Revenues over (under) expenditures	<u>(655,464)</u>	<u>(765,464)</u>	<u>(672,354)</u>	<u>93,110</u>
Other financing source (uses)				
Transfers in	626,000	626,000	626,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>(3,550)</u>	<u>(3,550)</u>
Total other financing sources (uses)	<u>626,000</u>	<u>626,000</u>	<u>622,450</u>	<u>(3,550)</u>
Net changes in fund balance	(29,464)	(139,464)	(49,904)	89,560
Fund balance, beginning of year	<u>585,835</u>	<u>585,835</u>	<u>585,835</u>	<u>-</u>
Fund balance, end of year	<u>\$ 556,371</u>	<u>\$ 446,371</u>	<u>\$ 535,931</u>	<u>\$ 89,560</u>

CITY OF EAST GRAND RAPIDS

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2012

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 201,588	\$ 124,162	\$ 325,750
Investments	660,388	327,604	987,992
Accounts receivable	-	17,841	17,841
Prepaid and other assets	374	27,506	27,880
Inventory	<u>43,812</u>	<u>-</u>	<u>43,812</u>
Total current assets	<u>906,162</u>	<u>497,113</u>	<u>1,403,275</u>
Capital assets			
Capital assets being depreciated	3,933,736	-	3,933,736
Less accumulated depreciation	<u>(2,326,607)</u>	<u>-</u>	<u>(2,326,607)</u>
Net capital assets	<u>1,607,129</u>	<u>-</u>	<u>1,607,129</u>
Total assets	<u>2,513,291</u>	<u>497,113</u>	<u>3,010,404</u>
Liabilities			
Current liabilities			
Accounts payable	9,956	1,852	11,808
Accrued liabilities	2,357	45,249	47,606
Current portion of compensated absences	<u>8,183</u>	<u>-</u>	<u>8,183</u>
Total current liabilities	20,496	47,101	67,597
Long-term liabilities			
Compensated absences	<u>1,929</u>	<u>-</u>	<u>1,929</u>
Total liabilities	<u>22,425</u>	<u>47,101</u>	<u>69,526</u>
Net assets			
Investment in capital assets, net of related debt	1,607,129	-	1,607,129
Unrestricted	<u>883,737</u>	<u>450,012</u>	<u>1,333,749</u>
Total net assets	<u>\$ 2,490,866</u>	<u>\$ 450,012</u>	<u>\$ 2,940,878</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2012

	Motor Pool	Health Insurance	Total
Operating revenue			
Charges for services	\$ 569,089	\$ 1,152,792	\$ 1,721,881
Other	-	-	-
	<u>569,089</u>	<u>1,152,792</u>	<u>1,721,881</u>
Total operating revenue			
	<u>569,089</u>	<u>1,152,792</u>	<u>1,721,881</u>
Operating expense			
Salaries and wages	170,772	-	170,772
Contracted services	-	314,031	314,031
Materials and supplies	263,280	-	263,280
Equipment	4,759	-	4,759
Claims	-	769,718	769,718
Administration	-	122,625	122,625
Depreciation	229,004	-	229,004
	<u>667,815</u>	<u>1,206,374</u>	<u>1,874,189</u>
Total operating expense			
	<u>667,815</u>	<u>1,206,374</u>	<u>1,874,189</u>
Operating income (loss)	(98,726)	(53,582)	(152,308)
Non-operating revenue (expense)			
Interest income	3,671	2,039	5,710
	<u>3,671</u>	<u>2,039</u>	<u>5,710</u>
Income (loss) before transfers	(95,055)	(51,543)	(146,598)
Transfers in	20,967	-	20,967
	<u>20,967</u>	<u>-</u>	<u>20,967</u>
Changes in net assets	(74,088)	(51,543)	(125,631)
Net assets, beginning of year	<u>2,564,954</u>	<u>501,555</u>	<u>3,066,509</u>
Net assets, end of year	<u>\$ 2,490,866</u>	<u>\$ 450,012</u>	<u>\$ 2,940,878</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from internal services provided	\$ 569,089	\$ 1,199,004	\$ 1,768,093
Receipts from customers and users			
Payments to employees	(168,947)	-	(168,947)
Payments to suppliers	(314,495)	(1,254,112)	(1,568,607)
Net cash provided by (used in) operating activities	<u>85,647</u>	<u>(55,108)</u>	<u>30,539</u>
Cash flows from non-capital financing activities			
Transfers in	20,967	-	20,967
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(434,137)	-	(434,137)
Cash flows from investing activities			
Net investment activity	(3,746)	(1,323)	(5,069)
Interest income	4,147	1,562	5,709
Net cash provided by (used in) investing activities	<u>401</u>	<u>239</u>	<u>640</u>
Net increase (decrease) in cash and pooled investments	(327,122)	(54,869)	(381,991)
Cash and pooled investments, beginning of year	<u>528,710</u>	<u>179,031</u>	<u>707,741</u>
Cash and pooled investments, end of year	<u>\$ 201,588</u>	<u>\$ 124,162</u>	<u>\$ 325,750</u>
Cash flows from operating activities			
Operating income (loss)	\$ (98,726)	\$ (53,582)	\$ (152,308)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	229,004	-	229,004
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	46,212	46,212
Prepaid and other assets	166	(3,292)	(3,126)
Inventory	10,252	-	10,252
Accounts payable	(56,874)	(9,208)	(66,082)
Accrued liabilities	1,040	(35,238)	(34,198)
Compensated absences	785	-	785
Net cash provided by (used in) operating activities	<u>\$ 85,647</u>	<u>\$ (55,108)</u>	<u>\$ 30,539</u>

Continuing Disclosure Filing

City of East Grand Rapids
County of Kent, State of Michigan

Fiscal Year Ended
June 30, 2012

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: Nrmsir@FTID.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943
E-mail: Jackie@macmi.com

MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of East Grand Rapids

CUSIP Numbers (attach additional sheet if necessary):

- Nine-digit number(s) to which the information relates:
- Information relates to **all securities** issued by the issuer having the following six-digit number(s): 272461
* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

- 1. _____ Principal and interest payment delinquencies
- 2. _____ Non-Payment related defaults
- 3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
- 4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
- 5. _____ Substitution of credit or liquidity providers, or their failure to perform
- 6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
- 7. _____ Modifications to rights of securities holders
- 8. _____ Bond calls
- 9. _____ Defeasances
- 10. _____ Release, substitution, or sale of property securing repayment of the securities
- 11. _____ Rating changes
- 12. _____ Failure to provide annual financial information as required for the fiscal years ended June 30, 2002 and 2003
- 13. _____ Other material event notice (specify)
- 14. X _____ Financial information*: Please check all appropriate boxes:

- CAFR: (a) includes does not include Annual Financial Information
- (b) Audited? Yes No
- Annual Financial Information: Audited? Yes No
- Operating Data
- Fiscal Period Covered: Fiscal Years Ended June 30, 2012

*Financial information **should not** be filed with the MSRB
* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: 

Name: Jeff Dood Title: Finance Director/Treasurer

Employer: City of East Grand Rapids, Michigan

Address: 750 Lakeside Drive, SE

City, State, Zip Code: East Grand Rapids, Michigan 49506-3092

Voice Telephone Number: (616) 949-2110

Population

The City's 1960, 1970, 1980, 1990, 2000 and 2010 census are as follows:

<u>Year of Census</u>	<u>Population</u>
1960	10,924
1970	12,565
1980	10,914
1990	10,807
2000	10,764
2010	10,694

Source: U.S. Department of Commerce-Bureau of Census

**City of East Grand Rapids
Total Taxable Value
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

<u>Assessed Value as of December 31</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City's Fiscal Years Ended or Ending June 30</u>	<u>Ad Valorem Taxable Value</u>	<u>Percent Increase Over Prior Year</u>
2007	2008	2009	\$485,766,281	6.16
2008	2009	2010	534,734,545	10.10
2009	2010	2011	527,292,789	(1.39)
2010	2011	2012	534,081,653	1.29
2011	2012	2013	545,263,594	2.09

Per Capita Taxable Value for the Fiscal Year Ending June 30, 2013 (1).....\$50,987.81

(1) Based on the City's 2010 census population of 10,694.

Source: City of East Grand Rapids

**City of East Grand Rapids
Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

<u>Use</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Commercial	\$ 20,524,037	\$ 24,986,019	\$ 25,275,280	\$ 25,014,349	\$ 25,954,655
Utility	2,182,000	2,370,528	2,363,416	2,681,500	2,908,100
Residential	<u>463,060,244</u>	<u>507,377,998</u>	<u>499,654,093</u>	<u>506,385,804</u>	<u>516,400,839</u>
	<u>\$ 485,766,281</u>	<u>\$ 534,734,545</u>	<u>\$ 527,292,789</u>	<u>\$ 534,081,653</u>	<u>\$ 545,263,594</u>
<u>Class</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Real Property	\$ 480,037,681	\$ 528,846,117	\$ 521,434,773	\$ 527,994,753	\$ 538,022,794
Personal Property	<u>5,728,600</u>	<u>5,888,428</u>	<u>5,858,016</u>	<u>6,086,900</u>	<u>7,240,800</u>
	<u>\$ 485,766,281</u>	<u>\$ 534,734,545</u>	<u>\$ 527,292,789</u>	<u>\$ 534,081,653</u>	<u>\$ 545,263,594</u>

Source: City of East Grand Rapids

**City of East Grand Rapids
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem SEV	Percent Increase Over Prior Year
2007	2008	2009	\$638,029,800	(.06)
2008	2009	2010	613,188,100	(3.90)
2009	2010	2011	595,297,800	(2.90)
2010	2011	2012	605,889,000	1.78
2011	2012	2013	607,890,800	.033

Per Capita SEV for the Fiscal Year Ending June 30, 2013(1) \$56,844.10

(1) Based on the City's 2010 census population of 10,694.

Source: City of East Grand Rapids

**City of East Grand Rapids
SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

Use	Fiscal Years Ended or Ending June 30				
	2009	2010	2011	2012	2013
Commercial	\$ 24,087,600	\$ 28,892,300	\$ 29,220,600	\$ 28,159,900	\$ 28,661,000
Residential	611,643,600	581,701,100	563,623,200	575,047,600	576,321,700
Utility.....	2,298,600	2,594,700	2,454,000	2,681,500	2,908,100
	<u>\$ 638,029,800</u>	<u>\$ 613,188,100</u>	<u>\$ 595,297,800</u>	<u>\$ 605,889,000</u>	<u>\$ 607,890,800</u>

Class	Fiscal Years Ended or Ending June 30				
	2009	2010	2011	2012	2013
Real Property	\$ 632,093,900	\$ 607,075,500	\$ 589,349,200	\$ 599,802,100	\$ 600,650,000
Personal Property.....	5,935,900	6,112,600	5,948,600	6,086,900	7,240,800
	<u>\$ 638,029,800</u>	<u>\$ 613,188,100</u>	<u>\$ 595,297,800</u>	<u>\$ 605,889,000</u>	<u>\$ 607,890,800</u>

Source: City of East Grand Rapids

**City of East Grand Rapids
Maximum Property Tax Rates
Fiscal Year Ending June 30, 2013**

Millage Classification	Millage Authorized	Applicable Millage Reduction Fraction (1)	Maximum Allowable Millage
Operating	20.0000	0.6759	13.5195

(1) Cumulative.

Source: City of East Grand Rapids

**City of East Grand Rapids
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

Levy <u>July 1</u>	Fiscal Years Ended or <u>Ending June 30</u>	<u>Operating</u>
2008	2009	13.5195
2009	2010	13.5195
2010	2011	13.5195
2011	2012	13.5195
2012	2013	13.5195

Source: City of East Grand Rapids

**City of East Grand Rapids
Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
City of East Grand Rapids.....	\$ 13.5195	\$13.5195	\$ 13.5195	\$ 13.5195	\$ 13.5195
City of East Grand Rapids Debt.....	1.0500	1.1500	1.2200	1.2100	1.1328
County of Kent.....	5.3940	5.3940	5.3940	5.3940	5.3940
State of Michigan.....	6.0000	6.0000	6.0000	6.0000	6.0000
East Grand Rapids Public Schools.....	9.7881	9.7881	9.7881	9.7699	9.7881
Kent County Intermediate School District.....	4.6903	4.6903	4.6903	4.6903	4.6903
Grand Rapids Community College.....	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Partnership.....	0.9500	1.1200	1.1200	1.1200	1.4100
District Library.....	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$ 44.0584</u>	<u>\$44.3284</u>	<u>\$ 44.3984</u>	<u>\$ 44.3702</u>	<u>\$ 44.6012</u>

**City of East Grand Rapids
Non-Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
City of East Grand Rapids.....	\$ 13.5195	\$13.5195	\$ 13.5195	\$ 13.5195	\$ 13.5195
City of East Grand Rapids Debt.....	1.0500	1.1500	1.2200	1.2100	1.1328
County of Kent.....	5.3940	5.3940	5.3940	5.3940	5.3940
State of Michigan.....	6.0000	6.0000	6.0000	6.0000	6.0000
East Grand Rapids Public Schools.....	27.7881	27.6550	27.6550	27.7699	27.7881
Kent County Intermediate School District.....	4.6903	4.6903	4.6903	4.6903	4.6903
Grand Rapids Community College.....	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Partnership.....	0.9500	1.1200	1.1200	1.1200	1.4100
District Library.....	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$ 62.0584</u>	<u>\$62.1953</u>	<u>\$62.2653</u>	<u>\$62.3702</u>	<u>\$ 62.6012</u>

(1) *Homestead Property* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the Living Care Disclosure Act, Act 440 of the Public Acts of Michigan of 1976, as amended. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead Property* is property not included in the above definition.

Source: City of East Grand Rapids

**City of East Grand Rapids
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

July 1 <u>Levy</u>	Fiscal Years Ended or Ending <u>June 30</u>	City <u>Tax Levy(1)</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2007	2008	\$6,927,882	6,717,889	96.97
2008	2009	7,106,947	6,885,596	96.89
2009	2010	7,229,323	7,056,471	97.61
2010	2011	7,128,714	6,995,064	98.13
2011	2012	7,220,000	7,100,309	98.34

(1) See "CITY TAXATION AND LIMITATIONS - Property Valuations".

Source: City of East Grand Rapids

**City of East Grand Rapids
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2013**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	<u>Percent of Total (1)</u>
Jade Pig Ventures EGR LLC.....	Office/Retail	\$6,204,800	1.14%
Spectrum Health Hospitals.....	Office.....	3,862,300	0.71
Lakewood Hills LLC	Apartments	1,820,517	0.33
Geenen, David ET AL.	Shopping Center	1,808,836	0.33
Consumers Energy Co	Utility	1,764,900	0.32
Bissell, Mark J & Catherine	Residential Home	1,486,995	0.27
Wege, Peter M Trust.....	Residential Home	1,228,008	0.23
Coral, Robert W III Trust.....	Residential Home	1,207,080	0.22
Jade Pig Ventures LLC	Vacant Commercial Land.....	1,185,200	0.22
Michigan Consolidate Gas Co.	Utility	<u>1,143,200</u>	<u>0.21</u>
		<u>\$21,711,836</u>	<u>3.98%</u>

(1) Based on \$545,263,594 which is the City's Total Taxable Value for its fiscal year ending June 30, 2013.

Source: City of East Grand Rapids

**City of East Grand Rapids
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

	Fiscal Year Ended or Ending June 30				
	2009	2010	2011	2012	2013 (1)
Total Revenues	<u>\$934,628</u>	<u>\$802,316</u>	<u>\$795,642</u>	<u>\$765,040</u>	<u>\$750,000</u>

(1) Budgeted.

Source: City of East Grand Rapids

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of October 2, 2011.

Debt Limit (1)	\$ 60,588,900
Debt Outstanding (2).....	\$ 12,117,655
Less: Exempt Debt (3)	<u>2,497,655</u>
Legal Debt Margin.....	<u>\$50,968,900</u>

(1) 10% of \$607,890,800 which is the City's SEV for the fiscal year ending June 30, 2013. See "CITY TAXATION AND LIMITATIONS – Property Valuations" herein.

(2) See "CITY DEBT-Statutory and Constitutional Debt Provisions" herein.

Source: Municipal Advisory Council of Michigan and the City of East Grand Rapids

Debt Statement

The following table reflects a breakdown of the City’s direct and overlapping debt as of October 2, 2011. Direct debt that is shown as self-supporting is paid from sources other than the City’s general fund.

The City’s ability to levy taxes to pay the debt service on the obligations that are designated as “Limited Tax” is subject to applicable charter, statutory and constitutional limitations. See “CITY TAXATION AND LIMITATIONS” herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated September 30, 2003 (Limited Tax).....	\$ 442,655	\$ 442,655	\$ -0-
Subtotal.....	<u>\$ 442,655</u>	<u>\$ 442,655</u>	<u>\$ -0-</u>
Michigan Transportation Fund Bonds:			
Dated April 1, 2005 (Limited Tax).....	\$ 2,055,000	\$ 2,055,000	\$ -0-
Subtotal.....	<u>\$ 2,055,000</u>	<u>\$ 2,055,000</u>	<u>\$ -0-</u>
General Obligation Bonds:			
Dated July 1, 2004 (Unlimited Tax).....	\$ 8,320,000	\$ -0-	\$ 8,320,000
Dated February 1, 2002 (Unlimited Tax).....	<u>1,300,000</u>	<u>-0-</u>	<u>1,300,000</u>
Subtotal.....	<u>\$ 9,620,000</u>	<u>\$ -0-</u>	<u>\$ 9,620,000</u>
Total Direct Debt.....	<u>\$ 12,117,655</u>	<u>\$ 2,497,655</u>	<u>\$ 9,620,000</u>

Per Capita Net Direct Debt (1) \$899.57
 Percent of Net Direct Debt to Total SEV (2) 1.59%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share as a Percent of Gross</u>	<u>Net</u>
East Grand Rapids Public Schools	\$ 82,228,566	93.82%	\$ 77,146,841
Kent County.....	147,250,000	2.55	3,754,875
Grand Rapids Community College.....	<u>48,885,000</u>	2.47	<u>11,207,460</u>
Total Overlapping Debt.....	<u>\$ 278,363,566</u>		<u>\$ 82,109,176</u>
Total Net Direct and Overlapping Debt.....	<u>\$ 290,481,221</u>		<u>\$ 91,729,176</u>

Per Capita Net Overlapping Debt (1)..... \$7,678.06
 Percent of Net Overlapping Debt to Total SEV (2) 13.55%

Per Capita Net Direct and Overlapping Debt (1)..... \$8,577.63
 Percent of Net Direct and Overlapping Debt to Total SEV (2) 15.14%

- (1) Based on the City’s 2010 Census of 10,694.
 (2) Based on \$605,889,000 which is the City’s SEV for the fiscal year ending June 30, 2012. See “CITY TAX AND LIMITATIONS - Property Valuations”.
 (3) Overlapping debt is the portion of another taxing unit’s debt for which property taxpayers of the City are liable in addition to debt issued by the City.
 Source: Municipal Advisory Council of Michigan and the City of East Grand Rapids.

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

September 20, 2012

Honorable Mayor and Members of 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, Michigan, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of East Grand Rapids, Michigan, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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

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September 20, 2012

Honorable Mayor and Members of the City Council
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 East Grand Rapids for the year ended June 30, 2012. 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 5, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by East Grand Rapids are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. 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 are:

Useful lives of capital assets and the valuation of the pension and other post employment benefit plan obligations.

Management's estimate of the useful lives is based on history and the estimate of plan obligations is based on actuarial valuations of the Plans. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 20, 2012.

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.

During the performance of our audit we also noted the following:

During our review of the inventory listing we noted that, although a physical inventory count was performed at year-end, numerous individual items contained a negative quantity quantity-on-hand. This resulted in an immaterial misstatement to the ending aggregate inventory value. We suggest that the inventory listing be reviewed for accuracy after it has been updated to match the physical counts.

Other Matters

With respect to the supplementary information accompanying the financial statements, 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.

This information is intended solely for the use of the Council and management of the City of East Grand Rapids, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Uredexeld Haefner LLC