



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010



Vredeveld Haefner LLC

CPA's

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

November 1, 2010

Honorable Mayor and Members of the City Council
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, 2010, 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, 2010, 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 November 1, 2010, 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 41 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.

Orstedald 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, 2010.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2010 fiscal year as follows:

- Phase II of the Reeds Lake Bike Trail project began during the fiscal year. The project is budgeted at \$760,000 and expected completion is October of 2010. This project was funded mostly by private donations with \$100,000 paid by each of the City of East Grand Rapids and Grand Rapids Township.
- The Waterfront Park project was started during the fiscal year with expected completion to be November of 2010. The total budget was \$756,300 with \$490,000 paid by State grants, \$88,300 paid by the Kellogg Foundation and \$178,000 paid by the City of East Grand Rapids.
- During the fiscal year \$100,000 was transferred from each of the Water and Sewer Fund and the MERF Fund to the Streets and Utilities Building Construction Fund. The construction project budgeted at \$1,400,000 was begun with expected completion in December 2010.
- The City Commission and the East Grand Rapids Public Schools have each committed to reserving \$40,000 annually for turf replacement.

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, local street fund and streets and utilities building fund which are considered 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 local 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 separate information for water and sewer operations, 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 information and budget and actual presentations. Supplemental information follows the required pension 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 \$27,720,533 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>	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 8,158,091	\$ 7,481,777	\$ 722,539	\$1,773,908	\$ 8,880,630	\$ 9,255,685
Long-term assets	25,485,950	25,368,745	7,789,742	7,250,984	33,275,692	32,619,729
Total assets	33,644,041	32,850,522	8,512,281	9,024,892	42,156,322	41,875,414
Liabilities						
Current liabilities	1,220,668	1,233,661	367,396	225,749	1,588,064	1,459,410
Long-term liabilities	12,281,159	12,632,776	566,566	689,037	12,847,725	13,321,813
Total liabilities	13,501,827	13,866,437	933,962	914,786	14,435,789	14,781,223
Net assets						
Invested in capital assets, net of related debt	13,051,936	12,669,435	7,250,646	6,619,088	20,302,582	19,288,523
Restricted	1,763,420	1,172,314	-	-	1,763,420	1,172,314
Unrestricted	5,326,858	5,142,336	327,673	1,491,018	5,654,531	6,633,354
Total net assets	\$20,142,214	\$18,984,085	\$7,578,319	\$8,110,106	\$27,720,533	\$27,094,191

By far the largest portion of the City's net assets in the amount of 73% 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 6% 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 \$5,654,531, or 21%, 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, 2010, was \$14,639,492 while total cost of all programs and services was \$14,013,150. This results in an increase in net asset of \$626,342. 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>	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$1,563,701	\$1,463,531	\$2,384,891	\$2,509,134	\$3,948,592	\$3,972,665
Operating grants and contributions	675,024	722,109	-	-	675,024	722,109
Capital grants and contributions	988,099	363,924	-	-	988,099	363,924
General revenues						
Property taxes	7,907,695	7,744,238	-	-	7,907,695	7,744,238
State shared revenues	804,837	890,332	-	-	804,837	890,332
Cable franchise fees	165,146	151,308	-	-	165,146	151,308
Investment earnings	93,303	204,780	56,796	72,429	150,099	277,209
Other	-	67,873	-	-	-	67,873
Total revenues	12,197,805	11,608,095	2,441,687	2,581,563	14,639,492	14,189,658
Expenses						
Legislative	27,916	24,702	-	-	27,916	24,702
General government	1,968,669	1,949,421	-	-	1,968,669	1,949,421
Public safety	4,151,433	4,226,969	-	-	4,151,433	4,226,969
Public works	2,777,109	2,873,617	-	-	2,777,109	2,873,617
Culture and recreation	1,472,369	1,643,479	-	-	1,472,369	1,643,479
Other	189,032	153,529	-	-	189,032	153,529
Interest on long-term debt	553,148	574,201	-	-	553,148	574,201
Water and sewer	-	-	2,873,474	2,932,985	2,873,474	2,932,985
Total expenses	11,139,676	11,445,918	2,873,474	2,932,985	14,013,150	14,378,903
Increase (decrease) before transfers	1,058,129	162,177	(431,787)	(351,422)	626,342	(189,245)
Transfers in (out)	100,000	300,000	(100,000)	(300,000)	-	-
Increase (decrease) in net assets	1,158,129	462,177	(531,787)	(651,422)	626,342	(189,245)
Net assets – beginning	18,984,085	18,521,908	8,110,106	8,761,528	27,094,191	27,283,436
Net assets – ending	\$20,142,214	\$18,984,085	\$7,578,319	\$8,110,106	\$27,720,533	\$27,094,191

Governmental Activities The preceding table shows that the governmental activities increased the City's net assets by \$1,158,129 during this fiscal year. The increase is primarily the result of grant revenues received for capital projects during the year.

Business-type Activities Business-type activities decreased the City's net assets by \$531,787 during the year. This decrease is primarily the result of decreased charges for services and slightly declining expenses in the water and sewer operation during the year.

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, unreserved 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 \$5,303,277 an increase of \$805,839 from the prior year. This was primarily due to an increase in fund balance reported in the major street fund.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, reserves of \$79,824 were outstanding for public safety, designations by the board for future activity were \$120,000 leaving unreserved and undesignated fund balance of \$2,166,655. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 24% 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 a decline in net assets of \$531,787.

Budgetary Highlights

Revenues in the General Fund were \$339,176 more than budgeted. This is mostly due to grant monies received for the Waterfront Park Project.

Expenditures in the General Fund were \$67,715 below final budget amounts. Expenditures were below budgeted amounts in all departments due to efforts by City Staff to reduce operating expenses in all areas of operations due to budget constraints.

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, 2010, amounted to \$33,275,692 (net of accumulated depreciation). Of this amount, \$25,485,950 was for its governmental activities and \$7,789,742 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Current year additions included construction in progress related to street and bike trail improvements as well as approximately \$1,000,000 of water and sewer system improvements.

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 \$12,847,725. Of this amount, \$12,281,159 was for governmental activities while \$566,566 was for business-type activities.

The City's total long-term debt decreased by approximately \$500,000 during the current fiscal year primarily as a result of payment of schedule 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 2011 fiscal year:

- The budget for next year includes the same millage rate that was levied for the year ending June 30, 2010. The millage rate levied was 13.5195 for both fiscal years ended June 30, 2010 and 2009. There was no rollback of the millage rate due to Headlee. This is due to a large number of properties in the City reducing in value.
- For the fiscal year 2010-11, the overall assessed value declined by 2.9% and the taxable value declined by 1.4%. This will result in a decline of \$100,600 in property tax revenue to the City. The year-to-date data from home sales for 2010 show a continued decline in home values that match the prior year decline.
- The State of Michigan continues to face budget deficits. It is anticipated that all statutory revenue sharing to municipalities will be eliminated in the future. The budget for the City's General Fund anticipates a \$120,000 loss in state revenue sharing.
- The City has responded to the economic downturn and pressure on revenues by trying to reduce program and operating expenses, increasing user fees, issuing debt for capital projects and making changes to employee benefits. The budget for next year includes an increase of \$120,500 in recreation revenues accomplished by an increase in participants and user fees. The budget for next year did not provide funding for a part-time Administrative Clerk in the Assessor's office. There is no cost of living wage increases for any union or non-union employees for the second year in row. The City made several cuts to programs and activities in order to balance the budget with declining revenues.
- The General Fund budget for next year is \$373,400 less than last fiscal year. Budgeted revenues actually exceed budgeted expenditures by \$49,700. The City has achieved a balanced budget for next fiscal year with an anticipated ending fund balance of 15.3% of operating expenditures. With the cuts in operations and expenses, the City's general fund revenues are sufficient to meet operating expenses in the next fiscal year.
- Since 2007, water and sewer charges from the City of Grand Rapids have risen over 25% for water and over 42% for sewer. In order to cover these dramatic increases, the budget for next fiscal year contains a \$.30 per thousand gallons water rate increase and a \$.45 per thousand gallons sewer rate increase to East Grand Rapids residents. The base readiness-to-serve charge will increase from \$16.67 to \$18.67 per month. The readiness-to-serve charge has not changed for over ten years. The water/sewer rate increase translates to a \$7.25 increase per month for the average customer that uses 7,000 gallons or less per month.

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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,186,378	\$ 344,858	\$ 2,531,236
Investments	4,750,795	-	4,750,795
Accounts receivable	114,420	314,461	428,881
Special assessments receivable	88,841	-	88,841
Due from other governments	764,766	-	764,766
Inventory	52,581	62,170	114,751
Prepaid and other assets	38,739	1,050	39,789
Debt issuance costs, net	161,571	-	161,571
Capital assets			
Land	2,124,000	-	2,124,000
Construction in progress	1,190,279	7,459	1,197,738
Depreciable capital assets, net	21,777,768	7,782,283	29,560,051
Net other post employment benefits asset	393,903	-	393,903
Total assets	33,644,041	8,512,281	42,156,322
Liabilities			
Accounts payable	727,279	350,677	1,077,956
Accrued liabilities	453,571	16,719	470,290
Unearned revenue	39,818	-	39,818
Noncurrent liabilities			
Compensated absences	241,048	27,470	268,518
Due within one year	375,000	96,512	471,512
Due in more than one year	11,665,111	442,584	12,107,695
Total liabilities	13,501,827	933,962	14,435,789
Net assets			
Invested in capital assets, net of related debt	13,051,936	7,250,646	20,302,582
Restricted for			
Major and local streets	1,603,524	-	1,603,524
Capital projects	37,914	-	37,914
Public safety	79,824	-	79,824
Debt service	42,158	-	42,158
Unrestricted	5,326,858	327,673	5,654,531
Total net assets	\$ 20,142,214	\$ 7,578,319	\$ 27,720,533

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, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 27,916	\$ -	\$ -	\$ -	\$ (27,916)
General government	1,968,669	255,478	-	144,950	(1,568,241)
Public safety	4,151,433	50,970	5,936	-	(4,094,527)
Public works	2,777,109	307,676	669,088	535,505	(1,264,840)
Recreation and culture	1,472,369	949,577	-	307,644	(215,148)
Other	189,032	-	-	-	(189,032)
Interest on long-term debt	553,148	-	-	-	(553,148)
Total governmental activities	11,139,676	1,563,701	675,024	988,099	(7,912,852)
Business-type activities					
Water and sewer	2,873,474	2,384,891	-	-	(488,583)
Total primary government	\$ 14,013,150	\$ 3,948,592	\$ 675,024	\$ 988,099	\$ (8,401,435)

(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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (7,912,852)	\$ (488,583)	\$ (8,401,435)
General revenues			
Property taxes	7,907,695	-	7,907,695
State shared revenues	804,837	-	804,837
Cable franchise fees	165,146	-	165,146
Unrestricted investment earnings	93,303	56,796	150,099
Transfers - internal activities	100,000	(100,000)	-
Total general revenues and transfers	<u>9,070,981</u>	<u>(43,204)</u>	<u>9,027,777</u>
Change in net assets	1,158,129	(531,787)	626,342
Net assets, beginning of year	<u>18,984,085</u>	<u>8,110,106</u>	<u>27,094,191</u>
Net assets, end of year	<u>\$ 20,142,214</u>	<u>\$ 7,578,319</u>	<u>\$ 27,720,533</u>

(concluded)

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

CITY OF EAST GRAND RAPIDS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

	<u>General</u>	<u>Local Streets</u>	<u>Streets and Utilities Building</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 250,456	\$ 443,133	\$ 278,408	\$ 625,583	\$ 1,597,580
Investments	2,161,455	498,889	1,118,681	-	3,779,025
Accounts receivable	112,602	244	210	-	113,056
Special assessment receivable	-	-	-	88,841	88,841
Due from other governments	647,016	27,726	-	90,024	764,766
Prepays	14,506	1,797	-	1,820	18,123
Total assets	\$ 3,186,035	\$ 971,789	\$ 1,397,299	\$ 806,268	\$ 6,361,391
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 562,284	\$ 129,786	\$ 6,619	\$ 10,915	\$ 709,604
Accrued liabilities	217,454	7,742	-	7,719	232,915
Deferred revenue	39,818	-	-	75,827	115,645
Total liabilities	819,556	137,528	6,619	94,461	1,058,164
Fund balances					
Reserved for					
Public safety	79,824	-	-	-	79,824
Unreserved					
Designated for					
Bike trail	-	511,492	-	-	511,492
Turf replacement	120,000	-	-	-	120,000
Undesignated	2,166,655	322,769	1,390,680	-	3,880,104
Undesignated reported in nonmajor					
Special revenue funds	-	-	-	631,735	631,735
Debt service funds	-	-	-	42,158	42,158
Capital projects funds	-	-	-	37,914	37,914
Total fund balances	2,366,479	834,261	1,390,680	711,807	5,303,227
Total liabilities and fund balances	\$ 3,186,035	\$ 971,789	\$ 1,397,299	\$ 806,268	\$ 6,361,391

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, 2010

Fund balances - total governmental funds	\$ 5,303,227
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Amounts reported for *governmental activities* 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 - Construction in progress	1,190,279
Add - capital assets (net of accumulated depreciation)	20,314,100

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	75,827
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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	393,903
--	---------

Internal service fund are used by management to charge the costs of centralized costs, 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	2,987,208
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Add - bond issuance costs	161,571
Deduct - compensated absences payable	(232,139)
Deduct - bonds payable	(12,040,111)
Deduct - accrued interest on bonds payable	(135,651)

Net assets of governmental activities	<u>\$ 20,142,214</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, 2010

	<u>General</u>	<u>Local Streets</u>	<u>Streets and Utilities Building</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 7,253,594	\$ -	\$ -	\$ 654,101	\$ 7,907,695
Intergovernmental revenues					
State	1,120,481	185,756	-	456,545	1,762,782
Local	-	142,338	-	154,553	296,891
Licenses and permits	208,822	-	-	-	208,822
Charges for services	1,330,638	-	-	-	1,330,638
Fines	48,906	-	-	-	48,906
Special assessments	-	-	-	13,014	13,014
Investment earnings	195,235	8,286	12,844	10,296	226,661
Miscellaneous	-	61,131	-	17,184	78,315
Total revenues	<u>10,157,676</u>	<u>397,511</u>	<u>12,844</u>	<u>1,305,693</u>	<u>11,873,724</u>
Expenditures					
Current					
Legislative	27,916	-	-	-	27,916
General government	1,882,290	-	-	-	1,882,290
Public safety	3,944,201	-	-	-	3,944,201
Public works	1,103,867	789,574	-	490,087	2,383,528
Culture and recreation	1,190,710	-	-	-	1,190,710
Other	181,839	-	-	-	181,839
Debt service					
Principal	-	-	-	365,000	365,000
Interest	-	-	-	556,429	556,429
Capital Outlay	565,562	-	25,050	410	591,022
Total expenditures	<u>8,896,385</u>	<u>789,574</u>	<u>25,050</u>	<u>1,411,926</u>	<u>11,122,935</u>
Revenues over (under) expenditures	<u>1,261,291</u>	<u>(392,063)</u>	<u>(12,206)</u>	<u>(106,233)</u>	<u>750,789</u>
Other financing sources (uses)					
Transfers in	-	347,384	200,000	1,040,621	1,588,005
Transfers out	(1,017,000)	-	-	(515,955)	(1,532,955)
Total other financing sources (uses)	<u>(1,017,000)</u>	<u>347,384</u>	<u>200,000</u>	<u>524,666</u>	<u>55,050</u>
Net changes in fund balances	244,291	(44,679)	187,794	418,433	805,839
Fund balances, beginning of year	<u>2,122,188</u>	<u>878,940</u>	<u>1,202,886</u>	<u>293,374</u>	<u>4,497,388</u>
Fund balances, end of year	<u>\$ 2,366,479</u>	<u>\$ 834,261</u>	<u>\$ 1,390,680</u>	<u>\$ 711,807</u>	<u>\$ 5,303,227</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, 2010

Net changes in fund balances - total governmental funds	\$ 805,839
Amounts reported for <i>governmental activities</i> 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	1,261,947
Deduct - depreciation expense	(1,256,801)
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	(13,014)
Bond or note proceeds provide current financial resources to governmental funds in the period issued, but issuing det 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.	
Add - principal payments on debt	365,000
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.	
Deduct - increase in compensated absences	(60,716)
Deduct - amortization of bond issuance costs	(7,917)
Add - increase in net other postemployment benefits asset	98,805
Add - decrease in accrued interest	3,281
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.	
Deduct - decrease in net assets from the internal service funds	<u>(37,396)</u>
Change in net assets of governmental activities	<u>\$ 1,158,129</u>

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2010

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Assets		
Current assets		
Cash and pooled investments	\$ 344,858	\$ 588,798
Investments	-	971,770
Accounts receivable	314,461	1,364
Inventory	62,170	52,581
Prepaid and other assets	1,050	20,616
Total current assets	722,539	1,635,129
Capital assets		
Construction in progress	7,459	-
Depreciable capital assets, net	7,782,283	1,463,668
Net capital assets	7,789,742	1,463,668
Total assets	8,512,281	3,098,797
Liabilities		
Current liabilities		
Accounts payable	350,677	17,675
Accrued liabilities	16,719	85,005
Current portion of compensated absences	22,233	7,211
Current portion of long-term debt	96,512	-
Total current liabilities	486,141	109,891
Long-term liabilities		
Compensated absences, net of current portion	5,237	1,698
Bonds payable, net of current portion	442,584	-
Total long-term liabilities	447,821	1,698
Total liabilities	933,962	111,589
Net assets		
Investment in capital assets net of related debt	7,250,646	1,463,668
Unrestricted	327,673	1,523,540
Total net assets	\$ 7,578,319	\$ 2,987,208

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, 2010

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Operating revenue		
Charges for services	\$ 2,371,464	\$ 1,693,585
Other	<u>13,427</u>	<u>4,004</u>
Total operating revenue	<u>2,384,891</u>	<u>1,697,589</u>
Operating expense		
Personnel services	382,959	125,150
Contractual services	767,165	228,736
Materials and supplies	100,582	193,090
Equipment	99,952	5,161
Water purchases	894,845	-
Claims	35,180	776,053
Administration	148,848	260,921
Depreciation	362,244	206,810
Miscellaneous	<u>62,064</u>	<u>-</u>
Total operating expense	<u>2,853,839</u>	<u>1,795,921</u>
Operating income (loss)	<u>(468,948)</u>	<u>(98,332)</u>
Non-operating revenue (expense)		
Investment earnings	56,796	15,986
Interest expense	<u>(19,635)</u>	<u>-</u>
Total non-operating revenue (expense)	<u>37,161</u>	<u>15,986</u>
Income (loss) before transfers	<u>(431,787)</u>	<u>(82,346)</u>
Transfers in	-	144,950
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>
Total transfers	<u>(100,000)</u>	<u>44,950</u>
Changes in net assets	(531,787)	(37,396)
Net assets, beginning of year	<u>8,110,106</u>	<u>3,024,604</u>
Net assets, end of year	<u>\$ 7,578,319</u>	<u>\$ 2,987,208</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, 2010

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 1,697,589
Receipts from customers and users	2,433,027	-
Payments to employees	(415,422)	(172,830)
Payments to suppliers	<u>(1,975,224)</u>	<u>(1,484,957)</u>
Net cash provided by (used in) operating activities	<u>42,381</u>	<u>39,802</u>
Cash flows from non-capital financing activities		
Transfers in	-	144,950
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>(100,000)</u>	<u>44,950</u>
Cash flows from capital and related financing activities		
Interest expense	(19,635)	-
Principal paid on bonds	(92,800)	-
Acquisitions of capital assets	<u>(901,002)</u>	<u>(220,064)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,013,437)</u>	<u>(220,064)</u>
Cash flows from investing activities		
Net investment activity	920,559	(25,514)
Interest income	<u>56,796</u>	<u>27,699</u>
Net cash provided by (used in) investing activities	977,355	2,185
Net increase (decrease) in cash and pooled investments	(93,701)	(133,127)
Cash and pooled investments, beginning of year	<u>438,559</u>	<u>721,925</u>
Cash and pooled investments, end of year	<u>\$ 344,858</u>	<u>\$ 588,798</u>
Cash flows from operating activities		
Operating income (loss)	\$ (468,948)	\$ (98,332)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	362,244	206,810
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	48,136	-
Prepaid and other assets	(1,051)	(17,535)
Inventory	(9,976)	(10,441)
Accounts payable	144,439	(15,111)
Accrued liabilities	(2,792)	22,643
Compensated absences	<u>(29,671)</u>	<u>(48,232)</u>
Net cash provided by (used in) operating activities	<u>\$ 42,381</u>	<u>\$ 39,802</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, 2010

	Other Postemployment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 32,973
Investments		
Mutual fund	714,805	-
Deliquent taxes recievable	<u>-</u>	<u>7,849</u>
Total assets	714,805	<u><u>\$ 40,822</u></u>
 Liabilities		
Due to other governmental units	<u>-</u>	<u><u>\$ 40,822</u></u>
 Net assets		
Held in trust for other postemployment benefits	<u><u>\$ 714,805</u></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, 2010

	Other Postemployment Benefit <u>Trust</u>
Additions	
Contributions:	
Employer	\$ 330,892
Investment earnings (losses)	<u>42,648</u>
Total Additions	<u>373,540</u>
Deductions	
Benefits	<u>98,792</u>
Total deductions	<u>98,792</u>
Net increase (decrease)	274,748
Net assets, beginning of year	<u>440,057</u>
Net assets, end of year	<u>\$ 714,805</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, 2010

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 charges 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, 2010

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 *Local 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 local streets by Act 51.

The *Streets and Utilities Building Fund* is used to account for the accumulation of monies from various funds for capital improvements.

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, 2010

Additionally, the City reports the following fund types:

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

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

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

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

The *Other Post Employment Benefits Trust Fund* is used to account for the operations of the City Other Post Employment Benefits Plan which provides other post employment 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

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 Council 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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriations lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected 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 Council. 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 investment 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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Receivables/Due from Other Governments

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

Special Assessments Receivable

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

Prepaid and Other Assets

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

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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	\$ 39,818
Special assessments	<u>75,827</u>
Total governmental funds	<u>\$115,645</u>

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.

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010, 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	\$ 27,400	\$ 27,916	\$ (516)
General Government			
City Attorney	205,000	287,857	(82,857)
Public Safety			
Training	6,700	7,296	(596)
Inspections	110,400	111,766	(1,366)
Public Works			
Engineering	128,300	129,101	(801)
Street lighting	76,000	104,924	(28,924)
Wealthy Street maintenance	71,800	72,801	(1,001)
Lake restoration	11,500	18,889	(7,389)
Grounds maintenance	293,400	294,233	(833)
Culture and Recreation			
Special events	134,200	139,579	(5,379)
Capital outlay	286,300	565,562	(279,262)

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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	\$2,531,236	\$ 32,973	\$2,564,209
Investments	4,750,795	714,805	5,465,600
	<u>\$7,282,031</u>	<u>\$747,778</u>	<u>\$8,029,809</u>

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

Deposits	\$ 4,631,912
Investments	3,397,397
Petty cash	<u>500</u>
Total	<u><u>\$8,029,809</u></u>

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, \$3,182,910 of the City's bank balance of \$4,682,910 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	\$2,182,592	Unrated	
US Treasury Bills	11/26/12	500,000	N/A	
Other Post Employment Benefits Trust Fund				
ICMA Conservative Growth Fund	N/A	<u>714,805</u>	3 stars	Morningstar
Total		<u><u>\$3,397,397</u></u>		

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, 2010

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. The maturity date for each investment is identified above for investments held at year-end.

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 \$3,397,397 of investments, the City has a custodial credit risk of \$500,000 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. 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.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2010 are as follows:

<u>Transfers out</u>	<u>Transfers in</u>				<u>Total</u>
	Local streets fund	Streets & utilities building fund	Nonmajor governmental funds	Internal service fund	
General fund	\$317,000	\$ -	\$ 700,000	\$ -	\$1,017,000
Nonmajor governmental funds	30,384	-	340,621	144,950	515,955
Water & sewer fund	-	100,000	-	-	100,000
Internal service funds	-	100,000	-	-	100,000
Total	\$347,384	\$200,000	\$1,040,621	\$144,950	\$1,732,955

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:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	1,122	1,236,312	47,155	1,190,279
Total capital assets, not being depreciated	2,125,122	1,236,312	47,155	3,314,279
Capital assets, being depreciated				
Land improvements	744,387	-	-	744,387
Buildings	11,060,757	-	-	11,060,757
Building improvements	3,496,215	-	-	3,496,215
Vehicles and equipment	3,713,891	220,064	-	3,933,955
Infrastructure	14,736,953	72,790	-	14,809,743
Total capital assets, being depreciated	33,752,203	292,854	-	34,045,057
Less accumulated depreciation for				
Land improvements	235,703	38,194	-	273,897
Buildings	1,449,501	357,117	-	1,806,618
Building improvements	1,447,461	179,803	-	1,627,264
Vehicles and equipment	2,155,377	239,462	-	2,394,839
Infrastructure	5,515,636	649,035	-	6,164,671
Total accumulated depreciation	10,803,678	1,463,611	-	12,267,289
Net capital assets, being depreciated	22,948,525	(1,170,757)	-	21,777,768
Governmental Activities capital assets, net	\$ 25,073,647	\$ 65,555	\$ 47,155	\$25,092,047

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Business-type Activities				
Capital assets, not being depreciated				
Construction in Progress	\$ 32,876	\$ 698,721	\$724,138	\$ 7,459
Capital assets being depreciated				
Sewer system	7,802,414	303,337	-	8,105,751
Water system	5,226,064	623,082	-	5,849,146
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>15,603,624</u>	<u>926,419</u>	<u>-</u>	<u>16,530,043</u>
Less accumulated depreciation for				
Sewer system	4,543,831	157,885	-	4,701,716
Water system	2,161,021	89,620	-	2,250,641
Lift station	206,695	17,589	-	224,284
Water tower	203,202	2,754	-	205,956
Drains	1,069,359	76,882	-	1,146,241
Meters	201,408	17,514	-	218,922
Total accumulated depreciation	<u>8,385,516</u>	<u>362,244</u>	<u>-</u>	<u>8,747,760</u>
Net capital assets, being depreciated	<u>7,218,108</u>	<u>564,175</u>	<u>-</u>	<u>7,782,283</u>
Business-type Activities capital assets, net	<u>\$7,250,984</u>	<u>\$1,262,896</u>	<u>\$724,138</u>	<u>\$7,789,742</u>

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

Governmental Activities	
General government	\$ 59,070
Public safety	148,303
Public works	830,745
Recreation and culture	218,683
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>206,810</u>
Total depreciation expense - governmental activities	<u>\$1,463,611</u>
Business-type Activities	
Water and sewer	<u>\$362,244</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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 \$526,020. 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, 2010, the City's annual pension cost of \$526,020 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 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, 2009, was 14 years.

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

<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>
6/30/08	\$432,427	100%	\$ -
6/30/09	463,015	100%	-
6/30/10	526,020	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>
12/31/09	\$11,693,346	\$18,022,984	\$6,329,638	65%	\$673,192	940%

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Defined Contribution Plans

The city also maintains three defined contribution retirement plans offered by MERS and administered by ICMA Retirement Corporations (ICMA). 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 4% of the participants' salaries to the Plan. The City's contribution for the year was \$33,146 and the employees' contribution was \$33,146.

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 \$205,255 and the employees' contribution was \$13,684.

Public Safety Defined Contribution Plan

The Public Safety Plan requires participants to contribute 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 \$214,597 and the employees' contribution was \$54,022.

7. OTHER POST EMPLOYMENT 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 City contributes at an actuarially determined rate plus an additional amount as determined by the City Council. The annual required contribution (ARC) was \$232,087 while the City contributed \$330,892 to the plan. The Plan paid \$98,792 in direct payments for retirees, to provide insurance coverage for 7 retired employees. The contribution requirements of the Plan members and the City are established and may be amended by the City Council.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. 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 actuarial liabilities (or funding excess) over a period of fifteen years. The first actuarial valuation of the Retiree Health Plan was performed as of June 30, 2006 with the requirements of GASB Statement #45 being implemented prospectively. 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	\$232,087
Interest on Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	232,087
Contribution made	330,892
Increase in net OPEB asset	98,805
Net OPEB asset, beginning of year	295,098
Net OPEB asset, end of year	\$393,903

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Required <u>Contribution (ARC)</u>	Percentage of ARC <u>Contributed</u>	Net OPEB <u>Asset</u>
6/30/09	\$222,093	233%	\$295,098
6/30/10	232,087	143%	393,903

Schedule of Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>Total</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
6/30/06	\$ -	\$1,782,803	\$1,782,803	0%	\$3,635,815	49.0%

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 and the actuarial value of assets, consistent with the long-term perspective of the calculation.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

The June 30, 2006 actuarial valuation of the Plan utilized the individual entry age actuarial cost method. The actuarial assumptions included: a rate of return on investments of 8%, projected salary increases of 4.5% attributable to inflation, additional projected salary increases ranging from 0% to 8.4%, depending on age, attributable to seniority/merit and projected healthcare benefit increases of from 11% graded to 4.5% in 2017. 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, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
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%	\$1,445,000	\$ -	\$ 70,000	\$1,375,000	\$ 75,000
\$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%	8,540,000	-	110,000	8,430,000	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%	2,430,000	-	185,000	2,245,000	190,000
Total	12,415,000	-	365,000	12,050,000	375,000
Unamortized discount	(10,788)	-	(899)	(9,889)	-
Accrued compensated absences	228,564	149,623	137,139	241,048	195,095
Total Governmental Activities	\$12,632,776	\$149,623	\$501,240	\$12,281,159	\$570,095
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%	\$ 631,896	\$ -	\$92,800	\$539,096	\$96,512
Accrued employee benefits	57,141	4,613	34,284	27,470	22,233
Total Business-type Activities	\$689,037	\$ 4,613	\$ 127,084	\$566,566	\$118,745

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2010 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 375,000	\$ 542,604	\$ 96,512	\$17,992
2012	385,000	529,030	99,296	14,832
2013	400,000	514,546	103,008	11,314
2014	420,000	499,038	107,648	7,469
2015	2,940,000	2,098,566	67,672	1,440
2016-2020	2,225,000	1,491,426	64,960	4,179
2021-2025	2,655,000	928,932	-	-
2026-2030	2,200,000	268,126	-	-
2031-2035	450,000	482,596	-	-
Total	\$12,050,000	\$7,354,864	\$539,096	\$57,226

9. RISK MANAGEMENT

The City is self-funded for employees' health benefits. The claims liability of \$80,397 reported at June 30, 2010 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, 2010 and 2009 were as follows:

Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2009	\$ 53,200	\$ 779,970	\$ 774,864	\$ 58,306
2010	58,306	1,032,865	1,010,774	80,397

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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.

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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, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 7,280,000	\$ 7,280,000	\$ 7,253,594	\$ (26,406)
Intergovernmental revenues				
State	884,800	884,800	1,120,481	235,681
Licenses and permits	144,000	144,000	208,822	64,822
Charges for services	1,281,500	1,281,500	1,330,638	49,138
Fines	54,000	54,000	48,906	(5,094)
Investment earnings	174,200	174,200	195,235	21,035
Total revenues	<u>9,818,500</u>	<u>9,818,500</u>	<u>10,157,676</u>	<u>339,176</u>
Expenditures				
Current				
Legislative	27,400	27,400	27,916	(516)
General government	1,880,600	1,880,600	1,882,290	(1,690)
Public safety	4,169,900	4,169,900	3,944,201	225,699
Public works	1,129,800	1,129,800	1,103,867	25,933
Culture and recreation	1,213,100	1,213,100	1,190,710	22,390
Other	257,000	257,000	181,839	75,161
Capital Outlay	280,300	286,300	565,562	(279,262)
Total expenditures	<u>8,958,100</u>	<u>8,964,100</u>	<u>8,896,385</u>	<u>67,715</u>
Revenues over (under) expenditures	<u>860,400</u>	<u>854,400</u>	<u>1,261,291</u>	<u>271,461</u>
Other financing sources (uses)				
Transfers out	<u>(1,017,000)</u>	<u>(1,017,000)</u>	<u>(1,017,000)</u>	<u>-</u>
Net changes in fund balance	(156,600)	(162,600)	244,291	406,891
Fund balance, beginning of year	<u>2,122,188</u>	<u>2,122,188</u>	<u>2,122,188</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,965,588</u>	<u>\$ 1,959,588</u>	<u>\$ 2,366,479</u>	<u>\$ 406,891</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 200,000	\$ 200,000	\$ 185,756	\$ (14,244)
Local	224,900	224,900	142,338	(82,562)
Investment earnings	2,000	2,000	8,286	6,286
Miscellaneous	-	-	61,131	61,131
Total revenues	<u>426,900</u>	<u>426,900</u>	<u>397,511</u>	<u>(29,389)</u>
Expenditures				
Current				
Public works				
Street maintenance	374,400	374,400	325,269	49,131
Street construction	1,020,000	1,020,000	352,487	667,513
Street administration	136,500	136,500	111,818	24,682
Total expenditures	<u>1,530,900</u>	<u>1,530,900</u>	<u>789,574</u>	<u>741,326</u>
Revenues over (under) expenditures	(1,104,000)	(1,104,000)	(392,063)	711,937
Other financing source (uses)				
Transfers in	326,000	326,000	347,384	21,384
Net changes in fund balance	(778,000)	(778,000)	(44,679)	733,321
Fund balance, beginning of year	<u>878,940</u>	<u>878,940</u>	<u>878,940</u>	<u>-</u>
Fund balance, end of year	<u>\$ 100,940</u>	<u>\$ 100,940</u>	<u>\$ 834,261</u>	<u>\$ 733,321</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>
12/31/2007	\$ 12,788,243	\$ 17,882,882	\$ 5,094,639	71.51%	\$ 654,520	778.38%
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%

Notes to required supplementary information

Budgets and Budgetary Accounting

The City adopts an annual budget for the general and each special revenue fund following the GAAP basis of accounting. Unexpended appropriations lapse at year end.

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**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, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property Taxes	\$ 7,260,000	\$ 7,260,000	\$ 7,224,108	\$ (35,892)
Interest and penalties on property taxes	20,000	20,000	29,486	9,486
Total taxes	<u>7,280,000</u>	<u>7,280,000</u>	<u>7,253,594</u>	<u>(26,406)</u>
Intergovernmental Revenue				
State shared revenue	872,300	872,300	804,837	(67,463)
State grants	12,500	12,500	315,644	303,144
Total intergovernmental revenue	<u>884,800</u>	<u>884,800</u>	<u>1,120,481</u>	<u>235,681</u>
Licenses and permits				
Business licenses	7,000	7,000	12,250	5,250
Cable television franchise fees	110,000	110,000	165,146	55,146
Building permits	20,000	20,000	25,056	5,056
Other	7,000	7,000	6,370	(630)
Total licenses and permits	<u>144,000</u>	<u>144,000</u>	<u>208,822</u>	<u>64,822</u>
Charges for services				
Administrative charges	130,000	130,000	130,000	-
Recreation fees	835,500	835,500	852,419	16,919
Grounds maintenance fees	131,200	131,200	133,236	2,036
Clerk's services	6,000	6,000	6,703	703
Right of way fees	30,000	30,000	34,820	4,820
Other	148,800	148,800	173,460	24,660
Total charges for services	<u>1,281,500</u>	<u>1,281,500</u>	<u>1,330,638</u>	<u>49,138</u>
Fines and penalties	<u>54,000</u>	<u>54,000</u>	<u>48,906</u>	<u>(5,094)</u>
Interest and rentals				
Interest	60,000	60,000	56,818	(3,182)
Cable tower rental	114,200	114,200	138,417	24,217
Total interest and rentals	<u>174,200</u>	<u>174,200</u>	<u>195,235</u>	<u>21,035</u>
Total revenues	<u>\$ 9,818,500</u>	<u>\$ 9,818,500</u>	<u>\$ 10,157,676</u>	<u>\$ 339,176</u>

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CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Commission				
Personnel services	\$ 8,600	\$ 8,600	\$ 8,047	\$ 553
Contractual services	4,500	4,500	8,925	(4,425)
Other	14,300	14,300	10,944	3,356
Total legislative	27,400	27,400	27,916	(516)
General government				
City Manager				
Personnel services	228,900	228,900	226,625	2,275
Contractual services	2,500	2,500	1,419	1,081
Equipment	200	200	211	(11)
Other	7,500	7,500	3,845	3,655
Total city manager	239,100	239,100	232,100	7,000
City Assessor				
Personnel services	124,200	124,200	120,065	4,135
Contractual services	-	-	-	-
Operating supplies	4,200	4,200	4,103	97
Equipment	200	200	-	200
Other	2,000	2,000	1,879	121
Total City Assessor	130,600	130,600	126,047	4,553
City Attorney				
Professional services	200,000	200,000	287,444	(87,444)
Other	5,000	5,000	413	4,587
Total City Attorney	205,000	205,000	287,857	(82,857)
Elections				
Personnel services	13,200	13,200	6,464	6,736
Contractual services	1,000	1,000	480	520
Operating supplies	4,000	4,000	2,788	1,212
Total Elections	18,200	18,200	9,732	8,468

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Controller-Clerk-Treasurer				
Personnel services	\$ 466,000	\$ 466,000	\$ 463,685	\$ 2,315
Contractual services	4,000	4,000	3,595	405
Professional services	18,000	18,000	15,100	2,900
Operating supplies	51,200	51,200	29,625	21,575
Repairs and maintenance	31,000	31,000	31,622	(622)
Equipment	800	800	665	135
Other	13,800	13,800	10,482	3,318
	<u>584,800</u>	<u>584,800</u>	<u>554,774</u>	<u>30,026</u>
Total Controller-Clerk-Treasurer				
City buildings				
Personnel services	200,800	200,800	180,906	19,894
Contractual services	409,000	409,000	395,506	13,494
Operating supplies	31,900	31,900	30,150	1,750
Repairs and maintenance	43,000	43,000	51,845	(8,845)
Equipment	11,000	11,000	10,219	781
Other	7,200	7,200	3,154	4,046
	<u>702,900</u>	<u>702,900</u>	<u>671,780</u>	<u>31,120</u>
Total city buildings				
	<u>1,880,600</u>	<u>1,880,600</u>	<u>1,882,290</u>	<u>(1,690)</u>
Total general government				
Public Safety				
General activity				
Personnel services	3,650,100	3,650,100	3,492,483	157,617
Contractual services	100,800	100,800	86,876	13,924
Operating supplies	80,000	80,000	49,027	30,973
Repairs and maintenance	9,000	9,000	3,889	5,111
Equipment	175,000	175,000	167,495	7,505
Other	31,900	31,900	25,369	6,531
	<u>4,046,800</u>	<u>4,046,800</u>	<u>3,825,139</u>	<u>221,661</u>
Total general activity				
State programs				
Training	6,700	6,700	7,296	(596)
	<u>6,700</u>	<u>6,700</u>	<u>7,296</u>	<u>(596)</u>
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
	<u>6,000</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total drug seizure program				

(continued)

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Inspection				
Personnel services	\$ 91,400	\$ 91,400	\$ 93,463	\$ (2,063)
Contractual services	13,000	13,000	15,203	(2,203)
Operating supplies	1,000	1,000	436	564
Equipment	5,000	5,000	2,664	2,336
<u>Total inspection</u>	<u>110,400</u>	<u>110,400</u>	<u>111,766</u>	<u>(1,366)</u>
Total public safety	<u>4,169,900</u>	<u>4,169,900</u>	<u>3,944,201</u>	<u>225,699</u>
Public Works				
Engineering				
Personnel services	118,500	118,500	118,945	(445)
Contractual services	2,300	2,300	3,915	(1,615)
Operating supplies	3,000	3,000	1,787	1,213
Equipment	4,000	4,000	4,454	(454)
Other	500	500	-	500
<u>Total engineering</u>	<u>128,300</u>	<u>128,300</u>	<u>129,101</u>	<u>(801)</u>
Street lighting				
Contractual services	69,000	69,000	85,818	(16,818)
Repairs and maintenance	7,000	7,000	19,106	(12,106)
<u>Total street lighting</u>	<u>76,000</u>	<u>76,000</u>	<u>104,924</u>	<u>(28,924)</u>
Wealthy streetscape maintenance				
Personnel services	6,100	6,100	5,922	178
Contractual services	52,500	52,500	55,083	(2,583)
Operating supplies	11,200	11,200	11,796	(596)
Repairs and maintenance	2,000	2,000	-	2,000
<u>Total wealthy streetscape maintenance</u>	<u>71,800</u>	<u>71,800</u>	<u>72,801</u>	<u>(1,001)</u>
Waste collection				
Personnel services	169,000	169,000	146,940	22,060
Contractual services	121,000	121,000	96,733	24,267
Operating supplies	800	800	294	506
Repairs and maintenance	-	-	-	-
Equipment	80,000	80,000	72,731	7,269
<u>Total waste collection</u>	<u>370,800</u>	<u>370,800</u>	<u>316,698</u>	<u>54,102</u>

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Lake restoration				
Contractual services	\$ 11,500	\$ 11,500	\$ 18,889	\$ (7,389)
Tree maintenance and removal				
Personnel services	134,000	134,000	134,612	(612)
Contractual services	36,000	36,000	16,681	19,319
Repairs and maintenance	1,500	1,500	-	1,500
Equipment	6,500	6,500	15,928	(9,428)
Tree maintenance and removal	<u>178,000</u>	<u>178,000</u>	<u>167,221</u>	<u>10,779</u>
Grounds maintenance				
Personnel services	155,200	155,200	156,138	(938)
Contractual services	1,900	1,900	1,399	501
Operating supplies	20,900	20,900	20,346	554
Repairs and maintenance	70,200	70,200	66,856	3,344
Equipment	45,000	45,000	49,494	(4,494)
Other	200	200	-	200
Total grounds maintenance	<u>293,400</u>	<u>293,400</u>	<u>294,233</u>	<u>(833)</u>
Total public works	<u>1,129,800</u>	<u>1,129,800</u>	<u>1,103,867</u>	<u>25,933</u>
Culture and recreations				
Parks and recreations				
Personnel services	744,800	744,800	700,158	44,642
Contractual services	109,600	109,600	134,049	(24,449)
Joint facilities agreement	156,200	156,200	161,033	(4,833)
Operating supplies	38,400	38,400	28,675	9,725
Repairs and maintenance	12,200	12,200	12,188	12
Equipment	1,200	1,200	970	230
Other	16,500	16,500	14,058	2,442
Total parks and recreations	<u>1,078,900</u>	<u>1,078,900</u>	<u>1,051,131</u>	<u>27,769</u>
Special events				
Personnel services	5,300	5,300	3,225	2,075
Contractual services	43,300	43,300	64,282	(20,982)
Operating supplies	53,300	53,300	41,716	11,584
Other	32,300	32,300	30,356	1,944
Total special events	<u>134,200</u>	<u>134,200</u>	<u>139,579</u>	<u>(5,379)</u>
Total culture and recreation	<u>1,213,100</u>	<u>1,213,100</u>	<u>1,190,710</u>	<u>22,390</u>

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other				
Personnel services	\$ 5,000	\$ 5,000	\$ 7,865	\$ (2,865)
Contractual services	34,000	34,000	29,439	4,561
Insurance premiums	141,000	141,000	88,581	52,419
Other	<u>77,000</u>	<u>77,000</u>	<u>55,954</u>	<u>21,046</u>
Total other	<u>257,000</u>	<u>257,000</u>	<u>181,839</u>	<u>75,161</u>
Capital outlay				
Controller-Clerk-Treasurer	25,700	31,700	31,141	559
City buildings	45,200	45,200	8,547	36,653
Public safety				
General activity	4,200	4,200	2,847	1,353
Drug seizure program	16,000	16,000	50,187	(34,187)
Culture and recreation				
Parks	174,200	174,200	465,647	(291,447)
Other	<u>15,000</u>	<u>15,000</u>	<u>7,193</u>	<u>7,807</u>
Total capital outlay	<u>280,300</u>	<u>286,300</u>	<u>565,562</u>	<u>(279,262)</u>
Total expenditures	<u>\$ 8,958,100</u>	<u>\$ 8,964,100</u>	<u>\$ 8,896,385</u>	<u>\$ 67,715</u>

(concluded)

CITY OF EAST GRAND RAPIDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2010

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Major Streets</u>	<u>Wealthy Pool</u>	<u>Municipal Complex</u>	<u>Streetscape</u>
Assets				
Cash and pooled investments	\$ 558,525	\$ 19,008	\$ 20,008	\$ 3,142
Special assessments receivable	-	-	-	-
Due from other governments	90,024	-	-	-
Prepays	1,820	-	-	-
Total assets	<u>\$ 650,369</u>	<u>\$ 19,008</u>	<u>\$ 20,008</u>	<u>\$ 3,142</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 10,915	\$ -	\$ -	\$ -
Accrued liabilities	7,719	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>18,634</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Unreserved				
Undesignated	631,735	19,008	20,008	3,142
Total fund balances	<u>631,735</u>	<u>19,008</u>	<u>20,008</u>	<u>3,142</u>
Total liabilities and fund balances	<u>\$ 650,369</u>	<u>\$ 19,008</u>	<u>\$ 20,008</u>	<u>\$ 3,142</u>

Capital Projects

<u>Municipal Complex</u>	<u>Streetscape</u>	<u>Special Assessments</u>	<u>Total</u>
\$ 24,189	\$ -	\$ 711	\$ 625,583
-	-	88,841	88,841
-	-	-	90,024
-	-	-	1,820
<u>\$ 24,189</u>	<u>\$ -</u>	<u>\$ 89,552</u>	<u>\$ 806,268</u>
\$ -	\$ -	\$ -	\$ 10,915
-	-	-	7,719
-	-	75,827	75,827
-	-	75,827	94,461
24,189	-	13,725	711,807
24,189	-	13,725	711,807
<u>\$ 24,189</u>	<u>\$ -</u>	<u>\$ 89,552</u>	<u>\$ 806,268</u>

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue		Debt Service	
	Major Streets	Wealthy Pool	Municipal Complex	Streetscape
Revenues				
Taxes	\$ -	\$ 134,028	\$ 520,073	\$ -
Intergovernmental revenues				
State	456,545	-	-	-
Local	9,603	-	-	-
Special assessments	-	-	-	-
Investment earnings	573	395	1,044	16
Miscellaneous	17,184	-	-	-
Total revenues	483,905	134,423	521,117	16
Expenditures				
Current				
Public works	490,087	-	-	-
Debt service				
Principal	-	70,000	110,000	185,000
Interest	-	67,740	395,114	93,575
Capital outlay	-	-	-	-
Total expenditures	490,087	137,740	505,114	278,575
Revenues over (under) expenditures	(6,182)	(3,317)	16,003	(278,559)
Other financing sources (uses)				
Transfers in	760,621	-	-	280,000
Transfers out	(280,000)	-	-	-
Total other financing sources (uses)	480,621	-	-	280,000
Net changes in fund balances	474,439	(3,317)	16,003	1,441
Fund balances, beginning of year	157,296	22,325	4,005	1,701
Fund balances, end of year	\$ 631,735	\$ 19,008	\$ 20,008	\$ 3,142

Capital Projects

<u>Municipal Complex</u>	<u>Streetscape</u>	<u>Special Assessments</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 654,101
-	-	-	456,545
144,950	-	-	154,553
-	-	13,014	13,014
103	39	8,126	10,296
<u>-</u>	<u>-</u>	<u>-</u>	<u>17,184</u>
<u>145,053</u>	<u>39</u>	<u>21,140</u>	<u>1,305,693</u>
-	-	-	490,087
-	-	-	365,000
-	-	-	556,429
<u>410</u>	<u>-</u>	<u>-</u>	<u>410</u>
<u>410</u>	<u>-</u>	<u>-</u>	<u>1,411,926</u>
<u>144,643</u>	<u>39</u>	<u>21,140</u>	<u>(106,233)</u>
-	-	-	1,040,621
<u>(144,950)</u>	<u>(13,237)</u>	<u>(77,768)</u>	<u>(515,955)</u>
<u>(144,950)</u>	<u>(13,237)</u>	<u>(77,768)</u>	<u>524,666</u>
(307)	(13,198)	(56,628)	418,433
<u>24,496</u>	<u>13,198</u>	<u>70,353</u>	<u>293,374</u>
<u>\$ 24,189</u>	<u>\$ -</u>	<u>\$ 13,725</u>	<u>\$ 711,807</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, 2010

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 490,000	\$ 490,000	\$ 456,545	\$ (33,455)
Local	-	-	9,603	9,603
Investment earnings	1,000	1,000	573	(427)
Miscellaneous	-	-	17,184	17,184
Total revenues	<u>491,000</u>	<u>491,000</u>	<u>483,905</u>	<u>(7,095)</u>
Expenditures				
Current				
Public works				
Street maintenance	341,700	341,700	318,754	22,946
Street construction	494,500	494,500	59,506	434,994
Street administration	138,000	138,000	111,827	26,173
Total expenditures	<u>974,200</u>	<u>974,200</u>	<u>490,087</u>	<u>484,113</u>
Revenues over (under) expenditures	<u>(483,200)</u>	<u>(483,200)</u>	<u>(6,182)</u>	<u>477,018</u>
Other financing sources				
Transfers in	713,100	713,100	760,621	47,521
Transfers out	<u>(280,000)</u>	<u>(280,000)</u>	<u>(280,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>433,100</u>	<u>433,100</u>	<u>480,621</u>	<u>47,521</u>
Net changes in fund balance	229,900	(50,100)	474,439	524,539
Fund balance, beginning of year	<u>157,296</u>	<u>157,296</u>	<u>157,296</u>	<u>-</u>
Fund balance, end of year	<u>\$ 387,196</u>	<u>\$ 107,196</u>	<u>\$ 631,735</u>	<u>\$ 524,539</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 263,517	\$ 325,281	\$ 588,798
Investments	649,088	322,682	971,770
Accounts receivable	71	1,293	1,364
Prepaid and other assets	658	19,958	20,616
Inventory	<u>52,581</u>	<u>-</u>	<u>52,581</u>
Total current assets	<u>965,915</u>	<u>669,214</u>	<u>1,635,129</u>
Capital assets			
Capital assets being depreciated	3,646,733	-	3,646,733
Less accumulated depreciation	<u>(2,183,065)</u>	<u>-</u>	<u>(2,183,065)</u>
Net capital assets	<u>1,463,668</u>	<u>-</u>	<u>1,463,668</u>
Total assets	<u>2,429,583</u>	<u>669,214</u>	<u>3,098,797</u>
Liabilities			
Current liabilities			
Accounts payable	13,426	4,249	17,675
Accrued liabilities	4,608	80,397	85,005
Current portion of compensated absences	<u>7,211</u>	<u>-</u>	<u>7,211</u>
Total current liabilities	25,245	84,646	109,891
Long-term liabilities			
Compensated absences	<u>1,698</u>	<u>-</u>	<u>1,698</u>
Total liabilities	<u>26,943</u>	<u>84,646</u>	<u>111,589</u>
Net assets			
Investment in capital assets net of related debt	1,463,668	-	1,463,668
Unrestricted	<u>938,972</u>	<u>584,568</u>	<u>1,523,540</u>
Total net assets	<u>\$ 2,402,640</u>	<u>\$ 584,568</u>	<u>\$ 2,987,208</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, 2010

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Operating revenue			
Charges for services	\$ 604,905	\$ 1,088,680	\$ 1,693,585
Other	<u>4,004</u>	<u>-</u>	<u>4,004</u>
Total operating revenue	<u>608,909</u>	<u>1,088,680</u>	<u>1,697,589</u>
Operating expense			
Salaries and wages	125,150	-	125,150
Contracted services	-	228,736	228,736
Materials and supplies	193,090	-	193,090
Equipment	5,161	-	5,161
Claims	-	776,053	776,053
Administration	-	260,921	260,921
Depreciation	<u>206,810</u>	<u>-</u>	<u>206,810</u>
Total operating expense	<u>530,211</u>	<u>1,265,710</u>	<u>1,795,921</u>
Operating income (loss)	<u>78,698</u>	<u>(177,030)</u>	<u>(98,332)</u>
Non-operating revenue (expense)			
Interest income	<u>10,927</u>	<u>5,059</u>	<u>15,986</u>
Income (loss) before transfers	89,625	(171,971)	(82,346)
Transfers in	144,950	-	144,950
Transfers out	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Total transfers	44,950	-	44,950
Changes in net assets	134,575	(171,971)	(37,396)
Net assets (deficit), beginning of year	<u>2,268,065</u>	<u>756,539</u>	<u>3,024,604</u>
Net assets, end of year	<u>\$ 2,402,640</u>	<u>\$ 584,568</u>	<u>\$ 2,987,208</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from internal services provided	\$ 608,909	\$ 1,088,680	\$ 1,697,589
Payments to employees	(172,830)	-	(172,830)
Payments to suppliers	(224,488)	(1,260,469)	(1,484,957)
Net cash provided by (used in) operating activities	<u>211,591</u>	<u>(171,789)</u>	<u>39,802</u>
Cash flows from non-capital financing activities			
Transfers in	144,950	-	144,950
Transfers out	(100,000)	-	(100,000)
Net cash provided by (used in) non-capital financing activities	<u>44,950</u>	<u>-</u>	<u>44,950</u>
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(220,064)	-	(220,064)
Cash flows from investing activities			
Net investment activity	(23,165)	(2,349)	(25,514)
Interest income	23,855	3,844	27,699
Net cash provided by (used in) investing activities	<u>690</u>	<u>1,495</u>	<u>2,185</u>
Net increase (decrease) in cash and pooled investments	37,167	(170,294)	(133,127)
Cash and pooled investments, beginning of year	<u>226,350</u>	<u>495,575</u>	<u>721,925</u>
Cash and pooled investments, end of year	<u>\$ 263,517</u>	<u>\$ 325,281</u>	<u>\$ 588,798</u>
Cash flows from operating activities			
Operating income (loss)	\$ 78,698	\$ (177,030)	\$ (98,332)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	206,810	-	206,810
Change in operating assets and liabilities which provided (used) cash			
Prepaid and other assets	2,423	(19,958)	(17,535)
Inventory	(10,441)	-	(10,441)
Accounts payable	(18,219)	3,108	(15,111)
Accrued liabilities	552	22,091	22,643
Compensated absences	(48,232)	-	(48,232)
Net cash provided by (used in) operating activities	<u>\$ 211,591</u>	<u>\$ (171,789)</u>	<u>\$ 39,802</u>

CITY OF EAST GRAND RAPIDS

**AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Current Tax Collection Fund</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
Assets				
Cash and pooled investments	\$ 29,285	\$ 17,729,452	\$ 17,725,764	\$ 32,973
Accounts receivable	<u>12,490</u>	<u>16,905,749</u>	<u>16,910,390</u>	<u>7,849</u>
Total assets	<u>\$ 41,775</u>	<u>\$ 34,635,201</u>	<u>\$ 34,636,154</u>	<u>\$ 40,822</u>
Liabilities				
Due to other governments	<u>\$ 41,775</u>	<u>\$ 37,465,990</u>	<u>\$ 37,466,943</u>	<u>\$ 40,822</u>
Total liabilities	<u>\$ 41,775</u>	<u>\$ 37,465,990</u>	<u>\$ 37,466,943</u>	<u>\$ 40,822</u>

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

November 1, 2010

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 City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

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. 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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. Finding 2010-1 is a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a material weakness in internal control over financial reporting.

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*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, 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.

Uredewald Haefner LLC

CITY OF EAST GRAND RAPIDS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENT FINDINGS

2010-1

Conditions: The City staff has not recorded all entries necessary to prepare fund basis financial statements or the government-wide financial statements in accordance with generally accepted accounting principles.

Effect: Auditing standards require that the inability to prepare financial statements in accordance with generally accepted accounting principles be reported as a material weakness.

Recommendation: The City's system of control should be modified so that financial statements are prepared in accordance with generally accepted accounting principles.

Management corrective action: The City has determined that this finding was the result of a shortage of staff time available for financial statement preparation. This time shortage is not expected in future years.

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