



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019



Vredeveld Haefner LLC
CPAs and Consultants

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

September 27, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 43 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Urodeuxeld 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, 2019.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2019 fiscal year as follows:

- Significant road and sidewalk projects continue to be completed due to the passing of the dedicated road and sidewalk millage in May of 2015. In addition, a federal road project was completed on Breton Street for total expenditures of \$860,500. In the current fiscal year 8.4 miles of various types of projects were completed for total expenditures of \$2,812,100.
- In the motor pool equipment replacement fund, \$234,100 was invested in various vehicle and equipment replacements.
- Water and sewer rates were increased in the current fiscal year to address the aging water distribution mains and sanitary sewer collection systems. Capital expenditures of \$1,273,100 were spent in this fiscal year on water and sewer projects.
- Payroll included 67 full-time and 14 part-time positions with total salary expenditures of approximately \$5,229,800.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. Budgetary comparison schedules have been provided herein to demonstrate legal compliance.

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

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

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

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

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

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$27,002,077 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 8,168,661	\$ 7,822,231	\$ 916,937	\$ 1,150,665	\$ 9,085,598	\$ 8,972,896
Long-term assets	27,388,986	26,691,285	11,741,121	10,897,151	39,130,107	37,588,436
Total assets	35,557,647	34,513,516	12,658,058	12,047,816	48,215,705	46,561,332
Deferred outflows of resources						
Pension and OPEB related items	1,915,801	1,142,976	24,891	21,363	1,940,692	1,164,339
Liabilities						
Current liabilities	2,026,973	2,041,383	282,586	344,672	2,309,559	2,386,055
Long-term liabilities	20,155,255	20,011,303	91,281	82,665	20,246,536	20,093,968
Total liabilities	22,182,228	22,052,686	373,867	427,337	22,556,095	22,480,023
Deferred inflows of resources						
Pension and OPEB related items	575,194	779,667	23,031	25,200	598,225	804,867
Net position						
Net investment in capital assets	19,534,630	17,956,801	11,741,121	10,897,151	31,275,751	28,853,952
Restricted	1,003,730	1,299,459	-	-	1,003,730	1,299,459
Unrestricted (deficit)	(5,822,334)	(6,432,121)	544,930	719,491	(5,277,404)	(5,712,630)
Total net position	\$14,716,026	\$12,824,139	\$12,286,051	\$11,616,642	\$27,002,077	\$24,440,781

The City's unrestricted net position in governmental activities is in a deficit position as a result of recording the net pension and net other post-employment benefits liabilities. Net investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding was \$31,275,751 at the end of the current fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position in the amount of \$1,003,730 represents resources that are subject to external restrictions on how they may be used.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2019, was \$20,177,855 while total cost of all programs and services was \$17,616,556. This resulted in an increase in net position of \$2,561,296. The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charges for services	\$ 1,857,919	\$ 1,860,594	\$ 4,247,408	\$ 4,173,752	\$ 6,105,327	\$ 6,034,346
Operating grants and contributions	1,323,884	1,151,240	-	190,946	1,323,884	1,342,186
Capital grants and contributions	806,463	165,641	-	-	806,463	165,641
General revenues						
Property taxes	10,511,813	10,262,194	-	-	10,511,813	10,262,194
State shared revenues	1,042,271	1,004,375	-	-	1,042,271	1,004,375
Cable franchise fees	206,652	217,300	-	-	206,652	217,300
Investment earnings	177,882	78,085	3,563	1,337	181,445	79,422
Total revenues	15,926,884	14,739,429	4,250,971	4,366,035	20,177,855	19,105,464
Expenses						
Legislative	49,637	25,224	-	-	49,637	25,224
General government	1,992,407	1,944,106	-	-	1,992,407	1,944,106
Public safety	5,192,353	5,161,324	-	-	5,192,353	5,161,324
Public works	4,510,644	4,148,220	-	-	4,510,644	4,148,220
Culture and recreation	2,059,018	1,982,066	-	-	2,059,018	1,982,066
Interest on long-term debt	230,938	239,861	-	-	230,938	239,861
Water and sewer	-	-	3,581,562	3,696,095	3,581,562	3,696,095
Total expenses	14,034,997	13,500,801	3,581,562	3,696,095	17,616,559	17,196,896
Increase (decrease) in net position						
before transfers	1,891,887	1,238,628	669,409	669,940	2,561,296	1,908,568
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	1,891,887	1,238,628	669,409	669,940	2,561,296	1,908,568
Net position – beginning	12,824,139	11,585,511	11,616,642	10,946,702	24,440,781	22,532,213
Net position – ending	\$14,716,026	\$12,824,139	\$12,286,051	\$11,616,642	\$27,002,077	\$24,440,781

Governmental Activities The preceding table shows that the governmental activities increased the City's net position by \$1,891,887 during this fiscal year. The increase is the result of significant capital additions that will be depreciated (expensed) in future years.

Business-type Activities Business-type activities increased the City's net position by \$669,409 during the year. This is a result of a rate increase as well as an increase in usage of both water and sewage treatment service.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,968,429, a decrease of \$144,980 from the prior year, which is primarily due to completion of street projects in the local street funds.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, nonspendable fund balance of \$195,679 relates to prepaid assets, committed fund balance of \$455,000 relates to future activities committed to by the Board and assigned fund balance of \$310,000 relates to subsequent year expenditures. Unassigned fund balance represents \$2,950,962 of total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 25.1% of total general fund expenditures and transfers out.

The major street fund is used to account for the receipt and expenditure of fuel and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51. The fund balance increased by \$108,157 during the current fiscal year leaving a remaining fund balance of \$594,083. Of this restricted fund balance, \$200,000 has been set aside to fund future federal projects.

The local street 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 fund balance decreased by \$339,977 during the current fiscal year leaving a remaining fund balance of \$285,184.

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

The City's enterprise operation consists of the water and sewer fund which provides services to most residents and businesses of the City. This fund experienced an increase in net position of \$669,940 as discussed under business-type activities above.

Budgetary Highlights

Revenues and transfers in in the General Fund were approximately \$11,851,900 which is 100.3% of the \$11,813,000 amended budgeted amount for the fiscal year. Property tax revenue was \$8,590,000 or 100.0% collected of the original tax roll.

Expenditures in the General Fund were approximately \$11,745,700 or 96.1% of the amended budgeted amount of \$12,223,000. The budget was amended to use \$410,000 of fund balance for the year; however, the actual results will add approximately \$106,200 into unrestricted fund balance which is made up of carryover of capital item to the next fiscal year and savings throughout various departments.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounted to \$39,130,107 (net of accumulated depreciation). Of this amount, \$27,388,986 was for its governmental activities and \$11,741,121 for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Current year additions included various equipment and several road projects.

Additional information on the City's capital assets can be found in Note 6 to the financial statements.

Long-term debt At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$20,246,536. Of this amount, \$7,964,611 was for governmental activities debt; \$9,910,979 related to the net pension liability and \$2,370,946 related to the liability for other post-employment benefits.

The City made payments on long-term debt of \$761,997 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 9 to the financial statements.

The net pension liability decreased \$698,638 while the net OPEB liability increased \$215,187.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2020 fiscal year:

- The General Fund expenditure budget for next year is \$246,000 more than last fiscal year's amended budgeted amount. Budgeted revenues are less than budgeted expenditures by \$310,000. General Fund unrestricted ending balance for the year ending June 30, 2020 is budgeted at 20.5% of expenditures including transfers.
- Property taxes, which comprise 73.0% of the General Fund budget, were increased by 3.04% in the June 30, 2020 budget. This is due to an overall assessed value increase of 4.9% and a taxable value increase of 5.0%.
- Due to an increase of taxable value over the inflation rate of 2.4%, a rollback of the City millage resulted. The General Fund budget for the year ended June 30, 2020 budget contains a property tax levy of 12.2428, which is the maximum available under the Headlee Amendment.
- The estimated tax funding dedicated to roads and sidewalks for the year ended June 30, 2020 is \$1,270,000 after reducing the amount for the additional funds received by the State. Capital projects are planned for the dedicated road and sidewalk millage totaling 6.2 miles of roadwork.
- The budget continues to address the aging water distribution mains and sanitary sewer collection systems. A total of \$1,032,000 will be spent for the upgrade and replacement of water mains and \$274,000 for upgrades related to the sanitary sewer system for the year ending June 30, 2020.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF EAST GRAND RAPIDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 7,056,687	\$ 404,718	\$ 7,461,405
Accounts receivable	274,602	498,399	773,001
Internal balances	16,927	(16,927)	-
Due from other governments	441,788	-	441,788
Inventory	92,233	28,389	120,622
Prepaid and other assets	286,424	2,358	288,782
Capital assets			
Land	2,144,700	-	2,144,700
Construction in progress	49,924	164,631	214,555
Depreciable capital assets, net	<u>25,194,362</u>	<u>11,576,490</u>	<u>36,770,852</u>
Total assets	<u>35,557,647</u>	<u>12,658,058</u>	<u>48,215,705</u>
Deferred outflows of resources			
Pension related	1,294,176	-	1,294,176
OPEB related	<u>621,625</u>	<u>24,891</u>	<u>646,516</u>
Total deferred outflows of resources	<u>1,915,801</u>	<u>24,891</u>	<u>1,940,692</u>
Liabilities			
Accounts payable	999,177	248,687	1,247,864
Accrued liabilities	684,622	17,556	702,178
Unearned revenue	68,719	-	68,719
Compensated absences	274,455	16,343	290,798
Noncurrent liabilities			
Net other post-employment benefits liability	2,279,665	91,281	2,370,946
Net pension liability	9,910,979	-	9,910,979
Bond premium	110,255	-	110,255
Debt due within one year	794,356	-	794,356
Debt due in more than one year	<u>7,060,000</u>	<u>-</u>	<u>7,060,000</u>
Total liabilities	<u>22,182,228</u>	<u>373,867</u>	<u>22,556,095</u>
Deferred inflows of resources			
OPEB related	<u>575,194</u>	<u>23,031</u>	<u>598,225</u>
Net position			
Net investment in capital assets	19,534,630	11,741,121	31,275,751
Restricted for			
Streets	943,478	-	943,478
Capital projects	-	-	-
Public safety	46,244	-	46,244
Debt service	14,008	-	14,008
Unrestricted (deficit)	<u>(5,822,334)</u>	<u>544,930</u>	<u>(5,277,404)</u>
Total net position	<u>\$ 14,716,026</u>	<u>\$ 12,286,051</u>	<u>\$ 27,002,077</u>

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
Legislative	\$ 50,146	\$ -	\$ -	\$ -	\$ (50,146)
General government	1,992,333	531,303	-	-	(1,461,030)
Public safety	5,192,160	50,165	5,749	36,423	(5,099,823)
Public works	4,510,478	132,333	1,318,135	752,560	(2,307,450)
Parks and recreation	2,058,942	1,144,118	-	17,480	(897,344)
Interest on long-term debt	230,938	-	-	-	(230,938)
Total governmental activities	<u>14,034,997</u>	<u>1,857,919</u>	<u>1,323,884</u>	<u>806,463</u>	<u>(10,046,731)</u>
Business-type activities					
Water and sewer	3,581,562	4,247,408	-	-	665,846
Total primary government	<u>\$ 17,616,559</u>	<u>\$ 6,105,327</u>	<u>\$ 1,323,884</u>	<u>\$ 806,463</u>	<u>\$ (9,380,885)</u>

(continued)

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (10,046,731)	\$ 665,846	\$ (9,380,885)
General revenues			
Property taxes	10,511,813	-	10,511,813
State shared revenues	1,042,271	-	1,042,271
Cable franchise fees	206,652	-	206,652
Unrestricted investment earnings	177,882	3,563	181,445
Total general revenues and transfers	11,938,618	3,563	11,942,181
Change in net position	1,891,887	669,409	2,561,296
Net position, beginning of year	12,824,139	11,616,642	24,440,781
Net position, end of year	\$ 14,716,026	\$ 12,286,051	\$ 27,002,077

(concluded)

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

CITY OF EAST GRAND RAPIDS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2019

	<u>General</u>	<u>Special Revenue</u>		<u>Nonmajor Governmental Funds</u>	<u>Total</u>
		<u>Major Streets</u>	<u>Local Streets</u>		
Assets					
Cash and pooled investments	\$ 4,119,814	\$ 727,785	\$ 574,317	\$ 190,772	\$ 5,612,688
Accounts receivable	137,627	3,208	3,209	126,680	270,724
Due from other governments	254,094	136,302	51,392	-	441,788
Inventory	-	24,171	24,171	-	48,342
Prepaid items	195,679	2,358	2,358	-	200,395
Total assets	<u>\$ 4,707,214</u>	<u>\$ 893,824</u>	<u>\$ 655,447</u>	<u>\$ 317,452</u>	<u>\$ 6,573,937</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 281,853	\$ 280,434	\$ 351,104	\$ 26,874	\$ 940,265
Due to other funds	101,597	8,572	8,486	-	118,655
Accrued liabilities	343,404	10,735	10,673	-	364,812
Unearned revenue	68,719	-	-	-	68,719
Total liabilities	<u>795,573</u>	<u>299,741</u>	<u>370,263</u>	<u>26,874</u>	<u>1,492,451</u>
Deferred inflows of resources					
Unavailable receivables	-	-	-	113,057	113,057
Fund balances					
Nonspendable					
Inventory	-	24,171	24,171	-	48,342
Prepaid items	195,679	2,358	2,358	-	200,395
Restricted					
Streets	-	567,554	258,655	117,269	943,478
Public safety					
Federal portion	-	-	-	18,084	18,084
State portion	-	-	-	28,160	28,160
Debt service	-	-	-	14,008	14,008
Committed					
Turf replacement	455,000	-	-	-	455,000
Assigned					
Subsequent year expenditures	310,000	-	-	-	310,000
Unassigned	2,950,962	-	-	-	2,950,962
Total fund balances	<u>3,911,641</u>	<u>594,083</u>	<u>285,184</u>	<u>177,521</u>	<u>4,968,429</u>
Total liabilities and fund balances	<u>\$ 4,707,214</u>	<u>\$ 893,824</u>	<u>\$ 655,447</u>	<u>\$ 317,452</u>	<u>\$ 6,573,937</u>

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

CITY OF EAST GRAND RAPIDS

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

JUNE 30, 2019

Fund balances - total governmental funds	\$ 4,968,429
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because</p>	
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.</p>	
Add - land	2,144,700
Add - construction in progress	49,924
Add - capital assets (net of accumulated depreciation)	23,106,578
<p>Certain assets are not due and receivable in the current period and therefore are offset with deferred inflows in the funds.</p>	
Add - special assessments deferred receivable	113,057
<p>Deferred inflows and outflows relate to future years and are not reported in the funds</p>	
Add - deferred outflows from pension related items	1,294,176
Add - deferred outflows from OPEB related items	621,625
Deduct - deferred inflows from OPEB related items	(575,194)
<p>Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.</p>	
Add - net position of governmental activities accounted for in the internal service funds	3,467,684
<p>Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>	
Deduct - compensated absences payable	(264,983)
Deduct - net other post-employment benefit liability	(2,279,665)
Deduct - net pension liability	(9,910,979)
Deduct - premium on bonds payable	(110,255)
Deduct - long-term debt	(7,854,356)
Deduct - accrued interest on bonds payable	(54,715)
Net position of governmental activities	\$ 14,716,026

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, 2019

	<u>General</u>	<u>Special Revenue</u>		<u>Nonmajor Governmental Funds</u>	<u>Total</u>
		<u>Major Streets</u>	<u>Local Streets</u>		
Revenues					
Taxes	\$ 8,590,040	\$ -	\$ -	\$ 1,921,773	\$ 10,511,813
Intergovernmental revenues					
State	1,063,760	897,896	420,239	-	2,381,895
Local	-	-	-	36,423	36,423
Licenses and permits	91,397	-	-	-	91,397
Charges for services	622,967	-	-	-	622,967
Recreation	1,144,118	-	-	-	1,144,118
Fines	34,425	-	-	-	34,425
Rentals	40,425	-	-	-	40,425
Investment earnings	132,355	6,395	13,273	7,452	159,475
Other	132,468	511	-	-	132,979
Total revenues	<u>11,851,955</u>	<u>904,802</u>	<u>433,512</u>	<u>1,999,376</u>	<u>15,189,645</u>
Expenditures					
Current					
Legislative	50,146	-	-	-	50,146
General government	1,635,884	-	-	-	1,635,884
Public safety	5,178,385	-	-	73,019	5,251,404
Public works	1,871,762	1,293,230	1,953,489	336,778	5,455,259
Parks and recreation	1,954,615	-	-	-	1,954,615
Debt service					
Principal	49,600	-	-	704,000	753,600
Interest	5,324	-	-	228,393	233,717
Total expenditures	<u>10,745,716</u>	<u>1,293,230</u>	<u>1,953,489</u>	<u>1,342,190</u>	<u>15,334,625</u>
Revenues over (under) expenditures	<u>1,106,239</u>	<u>(388,428)</u>	<u>(1,519,977)</u>	<u>657,186</u>	<u>(144,980)</u>
Other financing sources (uses)					
Transfers in	-	760,000	1,180,000	408,671	2,348,671
Transfers out	<u>(1,000,000)</u>	<u>(263,415)</u>	<u>-</u>	<u>(1,085,256)</u>	<u>(2,348,671)</u>
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>496,585</u>	<u>1,180,000</u>	<u>(676,585)</u>	<u>-</u>
Net changes in fund balances	106,239	108,157	(339,977)	(19,399)	(144,980)
Fund balances, beginning of year	<u>3,805,402</u>	<u>485,926</u>	<u>625,161</u>	<u>196,920</u>	<u>5,113,409</u>
Fund balances, end of year	<u>\$ 3,911,641</u>	<u>\$ 594,083</u>	<u>\$ 285,184</u>	<u>\$ 177,521</u>	<u>\$ 4,968,429</u>

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

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2019

Net changes in fund balances - total governmental funds \$ (144,980)

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

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

Add - capital outlay	2,945,281
Deduct - depreciation expense	(2,038,669)

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.

Add - special assessments levied	146,785
Deduct - special assessment receipts	(33,728)

Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add - principal payments on debt	761,997
Add - amortization of bond premium	7,876

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

Add - decrease in compensated absences	21,546
Deduct - increase in net other post-employment benefits liability	(215,187)
Add - increase in deferred outflows from OPEB related items	88,099
Add - decrease in deferred inflows from OPEB related items	54,161
Deduct - increase in net pension liability	(698,638)
Add - increase in deferred outflows from pension related items	684,726
Add - decrease in deferred inflows from pension related items	150,312
Add - decrease in accrued interest	2,779

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

Add - increase in net position of the internal service funds	<u>159,527</u>
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Change in net position of governmental activities \$ 1,891,887

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2019

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Assets		
Current assets		
Cash and pooled investments	\$ 404,718	\$ 1,443,999
Accounts receivable	498,399	3,878
Due from other funds	-	140,126
Prepaid and other assets	2,358	86,029
Inventory	<u>28,389</u>	<u>43,891</u>
Total current assets	933,864	1,717,923
Capital assets		
Construction in progress	164,631	-
Depreciable capital assets, net	<u>11,576,490</u>	<u>2,087,784</u>
Total assets	<u>12,674,985</u>	<u>3,805,707</u>
Deferred outflows of resources		
OPEB related items	<u>24,891</u>	<u>-</u>
Liabilities		
Current liabilities		
Accounts payable	248,687	58,912
Accrued liabilities	17,556	265,095
Due to other funds	16,927	4,544
Compensated absences	<u>16,343</u>	<u>9,472</u>
Total current liabilities	299,513	338,023
Long-term liabilities		
Net other post-employment benefits liability	<u>91,281</u>	<u>-</u>
Total liabilities	<u>390,794</u>	<u>338,023</u>
Deferred inflows of resources		
OPEB related items	<u>23,031</u>	<u>-</u>
Net position		
Net investment in capital assets	11,741,121	2,087,784
Unrestricted	<u>544,930</u>	<u>1,379,900</u>
Total net position	<u>\$ 12,286,051</u>	<u>\$ 3,467,684</u>

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

CITY OF EAST GRAND RAPIDS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenue		
Charges for services	\$ 4,185,221	\$ 2,410,637
Other	<u>62,187</u>	<u>97,151</u>
Total operating revenue	<u>4,247,408</u>	<u>2,507,788</u>
Operating expense		
Personnel services	732,015	220,126
Contractual services	53,492	534,637
Materials and supplies	999,834	222,757
Equipment	193,112	5,924
Claims	-	858,142
Administration	283,795	82,052
Depreciation	429,157	443,030
Miscellaneous	<u>890,157</u>	<u>-</u>
Total operating expense	<u>3,581,562</u>	<u>2,366,668</u>
Operating income (loss)	665,846	141,120
Non-operating revenue (expense)		
Investment earnings	<u>3,563</u>	<u>18,407</u>
Changes in net position	669,409	159,527
Net position, beginning of year	<u>11,616,642</u>	<u>3,308,157</u>
Net position, end of year	<u>\$ 12,286,051</u>	<u>\$ 3,467,684</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, 2019

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 2,638,668
Receipts from customers and users	4,296,614	-
Payments to employees	(735,036)	(223,746)
Payments to suppliers	<u>(2,459,426)</u>	<u>(1,719,012)</u>
Net cash provided by (used in) operating activities	1,102,152	695,910
Cash flows from capital and related financing activities		
Acquisitions of capital assets	(1,273,127)	(234,119)
Cash flows from investing activities		
Interest income	<u>3,563</u>	<u>18,407</u>
Net increase (decrease) in cash and pooled investments	(167,412)	480,198
Cash and pooled investments, beginning of year	<u>572,130</u>	<u>963,801</u>
Cash and pooled investments, end of year	<u>\$ 404,718</u>	<u>\$ 1,443,999</u>
Cash flows from operating activities		
Operating income (loss)	\$ 665,846	\$ 141,120
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	429,157	443,030
Deferred outflows of resources	(3,528)	-
Deferred inflows of resources	(2,169)	-
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	49,206	135,440
Due from other funds	-	(4,771)
Prepaid and other assets	(235)	(34,384)
Inventory	19,099	5,676
Accounts payable	(56,146)	36,566
Due to other funds	(1,754)	211
Accrued liabilities	(3,209)	(23,268)
Compensated absences	(2,731)	(3,710)
Net other post-employment benefits liability	<u>8,616</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 1,102,152</u>	<u>\$ 695,910</u>

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION/BALANCE SHEET
JUNE 30, 2019

	Other Post-employment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 1,286
Investments	1,432,058	-
Accounts receivable	<u>14,000</u>	<u>-</u>
Total assets	<u>1,446,058</u>	<u>\$ 1,286</u>
 Liabilities		
Accrued liabilities	19,055	\$ -
Due to other governmental units	<u>-</u>	<u>1,286</u>
Total liabilities	<u>19,055</u>	<u>\$ 1,286</u>
 Net position		
Held in trust for other post-employment benefits	<u>\$ 1,427,003</u>	

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Other Post-employment Benefit Trust
Additions	
Contributions:	
Employer	\$ 58,937
Other	12,381
Stop loss reimbursement	95,684
Investment earnings	<u>69,416</u>
Total Additions	236,418
Deductions	
Benefits	110,818
Administrative expenses	<u>42,938</u>
Total deductions	<u>153,756</u>
Net increase	82,662
Net position, beginning of year	<u>1,344,341</u>
Net position, end of year	<u><u>\$ 1,427,003</u></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, 2019

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are 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.

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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, pension and OPEB liabilities, and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and transfers from the City's municipal street millage fund.

The *Local Streets Fund* accounts for funds specifically intended for the maintenance and construction of local streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and transfers from the City's municipal street millage fund.

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.

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

The *Capital Project Fund* accounts for the accumulation and disbursement of resources for a street project within a special assessment district.

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.

Budgets and Budgetary Accounting

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

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Investments

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

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

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

Receivables/Due from Other Governments

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

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 following the consumption method.

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. Inventory is accounted for following the consumption method.

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.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

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

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

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

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

Unearned/Unavailable Revenue

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and *unearned revenue* for resources that have been received, but not yet earned. At the end of the current fiscal year, the unavailable revenue reported in the general fund consisted of fees received in advance.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense; information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has items that are reported in this category related to the pension as discussed in note 7 as well as OPEB items as discussed in note 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has items reported in this category related to OPEB items as discussed in note 8 and unavailable assessments receivable reported in the fund financial statements.

Fund Equity

Governmental funds report fund balance in the following five categories:

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

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

The City's policy requires the general fund to maintain between 20% and 25% of budgeted expenditures in unassigned fund balance.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Net Position and Fund Balance Flow Assumptions

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

Property Taxes

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

Interfund Transactions

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

PA. 621 of 1978, as amended, 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 budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
Parks and recreation			
Pool	\$204,100	\$214,214	\$(10,114)
Major Streets Fund			
Transfers out	263,400	263,415	(15)
Municipal Streets Fund			
Public works	335,600	336,778	(1,178)

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

3. DEFICIT NET POSITION

At June 30, 2019, the City reported a deficit unrestricted net position in its governmental activities of \$5,822,334.

4. 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	\$7,461,405	\$ 1,286	\$7,462,691
Investments	-	1,432,058	1,432,058
	<u>\$7,461,405</u>	<u>\$1,433,344</u>	<u>\$8,894,749</u>

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

Deposits	\$6,070,297
Investments	<u>2,824,452</u>
Total	<u>\$8,894,749</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 June 30, 2019, \$2,773,118 of the City's bank balance of \$6,043,916 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>
Governmental activities			
Kent County Investment Pool	N/A	\$1,392,394	Unrated
Other Post-employment Benefits Trust Fund			
VT II VP Milestone Ret. Income collective investment trust (CIT)	N/A	<u>1,432,058</u>	Unrated
Total		<u>\$2,824,452</u>	

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of year-end.

- The City does not have any investments valued using quoted market prices (Level 1 inputs).
- The VT II VP Milestone CIT and the Kent County Pool investments are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The City does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

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

Investment and deposit risk

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

At June 30, 2019 the balance of the Kent County Public Funds Investment Pool consisted of the following:

<u>Investment</u>	<u>Percentage of pool total</u>	<u>Maturity in years</u>
Government agency securities	17%	0-3
Certificates of deposits	61%	0-3
Deposits, money markets and other pools	22%	Not applicable

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

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above pooled and mutual fund investments, the City's custodial credit risk exposure cannot be determined because the City's participation in the pool/funds does not consist of specifically identifiable securities.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

5. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at June 30, 2019 were as follows:

<u>Payable fund</u>	<u>Receivable Fund</u> <u>Internal service</u>
General fund	\$101,597
Major streets fund	8,572
Local streets fund	8,486
Water and sewer fund	16,927
Internal service fund	4,544
	<u>\$140,126</u>

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

Transfers in and out for the year ended June 30, 2019 are as follows:

<u>Transfers in</u>	<u>Transfers out</u>			<u>Total</u>
	<u>General fund</u>	<u>Major streets fund</u>	<u>Nonmajor governmental funds</u>	
Major streets fund	\$ 75,000	\$ -	\$ 685,000	\$ 760,000
Local streets fund	800,000	-	380,000	1,180,000
Nonmajor governmental funds	125,000	263,415	20,256	408,671
	<u>\$1,000,000</u>	<u>\$263,415</u>	<u>\$1,085,256</u>	<u>\$2,348,671</u>

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 restricted revenues to the funds that are authorized to expend the resources in accordance with their restricted purpose.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2019</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,144,700	\$ -	\$ -	\$ 2,144,700
Construction in progress	62,467	49,924	62,467	49,924
Total capital assets, not being depreciated	<u>2,207,167</u>	<u>49,924</u>	<u>62,467</u>	<u>2,194,624</u>
Capital assets, being depreciated				
Land improvements	2,124,261	-	-	2,124,261
Buildings	12,417,729	4,800	-	12,422,529
Building improvements	3,770,393	40,500	-	3,810,893
Vehicles and equipment	6,016,820	334,567	-	6,351,387
Infrastructure	25,153,334	2,812,076	-	27,965,410
Total capital assets, being depreciated	<u>49,482,537</u>	<u>3,191,943</u>	<u>-</u>	<u>52,674,480</u>
Less accumulated depreciation for				
Land improvements	1,028,081	112,351	-	1,140,432
Buildings	4,966,239	400,927	-	5,367,166
Building improvements	3,033,404	183,691	-	3,217,095
Vehicles and equipment	3,310,767	582,134	-	3,892,901
Infrastructure	12,659,928	1,202,596	-	13,862,524
Total accumulated depreciation	<u>24,998,419</u>	<u>2,481,699</u>	<u>-</u>	<u>27,480,118</u>
Net capital assets, being depreciated	<u>24,484,118</u>	<u>710,244</u>	<u>-</u>	<u>25,194,362</u>
Governmental Activities capital assets, net	<u>\$26,691,285</u>	<u>\$ 760,168</u>	<u>\$62,467</u>	<u>\$27,388,986</u>
Business-type Activities				
Construction in progress	\$ 2,881	\$ 164,631	\$ 2,881	\$ 164,631
Capital assets being depreciated				
Sewer system	9,533,716	93,060	-	9,626,776
Water system	10,393,254	915,152	-	11,308,406
Lift station	553,299	-	-	553,299
Water tower	602,175	-	-	602,175
Drains	1,726,036	-	-	1,726,036
Meters	350,271	103,165	-	453,436
Total capital assets, being depreciated	<u>23,158,751</u>	<u>1,111,377</u>	<u>-</u>	<u>24,270,128</u>
Less accumulated depreciation for				
Sewer system	6,433,659	128,712	-	6,562,371
Water system	3,136,021	229,111	-	3,365,132
Lift station	319,463	18,594	-	338,057
Water tower	426,021	41,681	-	467,702
Drains	1,599,044	9,769	-	1,608,813
Meters	350,273	1,290	-	351,563
Total accumulated depreciation	<u>12,264,481</u>	<u>429,157</u>	<u>-</u>	<u>12,693,638</u>
Net capital assets, being depreciated	<u>10,894,270</u>	<u>682,220</u>	<u>-</u>	<u>11,576,490</u>
Business-type Activities capital assets, net	<u>\$10,897,151</u>	<u>\$ 846,851</u>	<u>\$2,881</u>	<u>\$11,741,121</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

Governmental Activities	
General government	\$ 449,067
Public safety	117,856
Public works	1,319,516
Recreation and culture	152,230
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>443,030</u>
Total depreciation expense - governmental activities	<u>\$2,481,699</u>
Business-type Activities	
Water and sewer	<u>\$429,157</u>

7. PENSION PLANS

MERS Defined Benefit Plan

Plan Description

The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

This plan is closed to new entrants.

Benefits Provided

Benefits provided include a multiplier of 2.25 to 2.50 times final average compensation with a vesting period of 10 years. Normal retirement age is 60 with early retirement at 50 with 25 or 55 with 15 to 25 years of service with various benefits. Benefits are calculated using final average compensation of 3 or 5 years depending on the employee's position and classification.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2018):

Active plan members	4
Inactive employees entitled but not yet receiving benefits	10
Inactive employees or beneficiaries currently receiving benefits	<u>46</u>
Total	<u>60</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was \$103,364 per month. Contributions are determined based on position and classification of participating employees. Participating employees are required to contribute from 0% to 5.0% percent of gross wages to the Plan based on position and classification. 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 labor agreements.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age)

Investment rate of return: 8.0% including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Money Weighted Rate of Return</u>
Global Equity	57.5%	6.27%	3.60%
Global Fixed Income	20.0%	3.43%	0.68%
Real Assets	12.5%	5.48%	0.69%
Diversifying Strategies	10.0%	7.81%	0.78%
Inflation			2.00%
Administrative fee			0.25%
Investment rate of return			8.00%

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Discount rate

The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2017	\$18,518,876	\$9,306,535	\$9,212,341
Changes for the Year:			
Service cost	41,833	-	41,833
Interest	1,416,984	-	1,416,984
Change in benefits	-	-	-
Differences between expected and actual experience	121,807	-	121,807
Change in assumptions	-	-	-
Contributions: employer	-	1,240,368	(1,240,368)
Contributions: employee	-	14,080	(14,080)
Net investment income	-	(354,678)	354,678
Benefit payments, including refunds	(1,654,980)	(1,654,980)	-
Administrative expense	-	(17,783)	17,783
Other changes	1	-	1
Net changes	(74,355)	(772,993)	698,638
Balance at December 31, 2018	\$18,444,521	\$8,533,542	\$9,910,979

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer, calculated using the discount rate of 8%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7%) or 1% higher (9%) than the current rate.

	1% Decrease	Current Discount rate	1% Increase
Total pension liability	\$20,032,682	\$18,444,521	\$17,074,004
Fiduciary net position	8,533,542	8,533,542	8,533,542
Net pension liability	\$11,499,140	\$ 9,910,979	\$ 8,540,462

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2019 the employer recognized pension expense of \$1,132,595. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	656,099	-
Contributions subsequent to the measurement date*	638,076	-
Total	\$1,294,175	\$ -

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2020.

Amounts reported as deferred outflows and inflows of resources related to pensions (excluding contributions subsequent to the measurement date) will be recognized in pension expense as follows:

2020	\$242,230
2021	70,743
2022	126,632
2023	216,494
Total	\$656,099

Defined Contribution Plans

The City also maintains a defined contribution retirement plan administered by ICMA-RC. The plan has a vesting period of 5 years and can be amended by City Council within the limits of various union agreements. The City's contribution for the year was \$533,407 and employee contributions were \$128,788. The Plan covers all employees whose contributions are determined based on their position and classification as follows:

City services employees hired on or after July 7, 1999 and all City services employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. City services employees contribute 6% and the City contributes 10.5% of the participants' salaries to the Plan.

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. Non-Union employees have 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.

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. Public safety participants are required to contribute 3.77-3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salaries to the Plan.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City maintains a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 7, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. The Plan is included as an other post-employment benefits trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

Benefits provided

The plan provides 100% of health insurance benefits to eligible retirees and their spouse until age 65. Dependents are covered until age 26. Eligibility is determined based on position and classification and is maintained until the employee is eligible for federal Medicare coverage at age 65.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2019):

Active plan members	67
Retirees and beneficiaries receiving benefits	<u>10</u>
Total	<u><u>77</u></u>

Contributions

The Plan was established and is being funded under the authority of the City Commission. The Plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation. There are no long-term contracts for contributions to the Plan. The plan has no legally required reserves.

Net OPEB Liability

The total OPEB liability in the June 30, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.1%

Salary Increases: 2.25%

Investment rate of return: 4.36%, net of investment expense, including inflation

Healthcare cost trend rates: 5% per year

20-year Aa Municipal bond rate: 3.15%

Mortality rates used headcount weighted mortality tables with improvement scale MP-2018.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on OPEB plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US equity	28.5%	6.07%
International equity	8.5%	6.03%
Fixed income	59.0%	3.26%
Diversifying strategies	4.0%	4.78%

The sum of each target benefit times its long-term expected real rate is 4.36%.

Discount rate. The discount rate used to measure the total OPEB liability for June 30, 2019 is 3.22% (3.26% for 2018). The projection of cash flows used to determine the discount rate assumes that no City contributions will be made as assets are drawn down to pay retiree benefits. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be sufficient to pay all projected future benefit payments of current members through 2025. For projected benefits that are expected to be covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance at June 30, 2018	\$3,491,484	\$1,344,341	\$2,147,143
Changes for the Year:			
Service cost	151,489	-	151,489
Interest	117,156	-	117,156
Change in benefits	-	-	-
Differences between expected and actual experience	90,081	-	90,081
Change in assumptions	46,177	-	46,177
Contributions: employer	-	112,437	(112,437)
Contributions: employee	-	-	-
Net investment income	-	68,663	(68,663)
Benefit payments, including refunds	(98,437)	(98,437)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	306,466	82,663	223,803
Balance at June 30, 2019	\$3,797,950	\$1,427,004	\$2,370,946

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the Net OPEB Liability to changes in the discount rate.

The following presents the net OPEB liability of the employer, calculated using the discount rate of 3.22%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount rate</u>	<u>1% Increase</u>
Total OPEB liability	\$4,081,952	\$3,797,950	\$3,532,885
Fiduciary net position	1,427,004	1,427,004	1,427,004
Net OPEB liability	<u>\$2,654,948</u>	<u>\$2,370,946</u>	<u>\$2,105,881</u>
Plan fiduciary position as a percentage of the total OPEB liability	<u>37.6%</u>		

Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 5.0%, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate.

	<u>1% Decrease</u>	<u>Current healthcare cost trend rate</u>	<u>1% Increase</u>
Total OPEB liability	\$3,492,485	\$3,797,950	\$4,223,740
Fiduciary net position	1,427,004	1,427,004	1,427,004
Net OBEB liability	<u>\$2,065,481</u>	<u>\$2,370,946</u>	<u>\$2,796,736</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plan

For the year ended June 30, 2019 the employer recognized OPEB expense of \$188,283. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$199,300	\$598,225
Differences in assumptions	419,608	-
Excess(deficit) investment returns	27,608	-
Total	<u>\$646,516</u>	<u>\$598,225</u>

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020	\$ 6,214
2021	6,216
2022	9,977
2023	3,042
2024	(540)
Thereafter	<u>23,382</u>
Total	<u>\$48,291</u>

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

9. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Governmental Activities					
Public Placement Bonds					
\$8,400,000 Unlimited Tax General Obligation Bonds, Series 2012B; due in annual installments of \$70,000 to \$570,000 through June 2033, plus interest at 2% to 4%	\$7,310,000	\$ -	\$315,000	\$6,995,000	\$350,000
Private Placement Bonds and Notes					
\$1,243,000 Unlimited Tax General Obligation Refunding Bonds Series 2012; due in annual installments of \$97,000 to \$151,000 through April 2022, plus interest at 1.99%	571,000	-	134,000	437,000	140,000
\$1,250,000 2015 Michigan Transportation Fund Refunding Bonds; due in annual installments of \$245,000 to \$255,000 through April 2020, plus interest at .75% to 1.8%	510,000	-	255,000	255,000	255,000
\$119,900 2018 Installment Purchase Agreement; due in annual installments of \$23,980 through May 2023, plus interest at 2.84%	119,900	-	31,680	88,220	23,980
\$89,600 2018 Installment Purchase Agreement; due in annual installments of \$17,920 through May 2023, plus interest at 2.84%	89,600	-	17,920	71,680	17,920
Total Private Placement Bonds and Notes	1,290,500	-	438,600	851,900	436,900
Capital lease	15,853	-	8,397	7,456	7,456
Total	8,616,353	-	761,997	7,854,356	794,356
Unamortized premium	118,131	-	7,876	110,255	7,876
Accrued compensated absences	299,711	-	25,256	274,455	-
Total Governmental Activities	\$9,034,195	\$ -	\$795,129	\$8,239,066	\$802,232

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Business-type Activities	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Accrued compensated absences	\$19,074	\$ -	\$2,731	\$16,343	\$ -

Compensated absences of governmental funds are generally liquidated with general fund resources.

The annual requirements to amortize all debt outstanding (excluding unamortized premium and accrued compensated absences) as of June 30, 2019 are as follows:

Year Ending June 30	Governmental Activities			
	Public Placement Bonds		Private Placement Bonds and Notes and Capital Leases	
	Principal	Interest	Principal	Interest
2020	\$350,000	\$198,750	\$444,356	\$18,424
2021	385,000	188,250	187,900	9,261
2022	415,000	172,850	192,900	5,167
2023	450,000	162,475	34,200	971
2024	480,000	151,225	-	-
2025-2029	2,760,000	557,200	-	-
2030-2033	2,155,000	160,350	-	-
Total	\$6,995,000	\$1,591,100	\$859,356	\$33,823

The debt documents contain various provisions that in the event of default, the City shall be required to use money from its general fund or levy an ad valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory, and charter limitations.

10. RISK MANAGEMENT

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.

The City is self-funded for employees' health benefits. The claims liability of \$77,093 reported at June 30, 2019 is based on the requirements of the Governmental Accounting Standards Board, which requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

The activity of the self-funded insurance is accounted for in the Health Insurance Internal Service fund. An excess coverage insurance policy covers claims in excess of \$50,000 per covered individual. There were no changes in insurance coverage from the prior year other than an increase in the premium contribution for all coverage levels. 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, 2019 and 2018 were as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2018	\$ 124,083	\$ 1,052,922	\$ 1,083,414	\$ 93,591
2019	93,591	1,158,018	1,174,516	77,093

11. CONSTRUCTION CODE FEES

The City oversees building construction in accordance with the State of Michigan Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. During the year, the City collected fees of \$31,067 with related direct and indirect expenditures in excess of that amount.

12. CONTINGENCIES

In the normal course of its operations, the City has become a party in various legal actions. 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.

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the City.

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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, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 8,594,000	\$ 8,591,100	\$ 8,590,040	\$ (1,060)
Intergovernmental revenues				
State	1,016,300	1,037,700	1,063,760	26,060
Licenses and permits	65,000	83,500	91,397	7,897
Charges for services	573,900	642,200	622,967	(19,233)
Recreation	1,184,400	1,138,100	1,144,118	6,018
Fines	35,000	35,000	34,425	(575)
Rentals	40,400	40,400	40,425	25
Investment earnings	60,000	105,400	132,355	26,955
Other	121,600	139,600	132,468	(7,132)
Total revenues	<u>11,690,600</u>	<u>11,813,000</u>	<u>11,851,955</u>	<u>38,955</u>
Expenditures				
Current				
Legislative	30,200	56,400	50,146	6,254
General government	1,660,500	1,714,000	1,635,884	78,116
Public safety	5,349,000	5,365,700	5,178,385	187,315
Public works	1,905,000	1,992,200	1,871,762	120,438
Parks and recreation	2,060,900	2,039,700	1,954,615	85,085
Debt service				
Principal	15,000	49,600	49,600	-
Interest and fiscal charges	-	5,400	5,324	76
Total expenditures	<u>11,020,600</u>	<u>11,223,000</u>	<u>10,745,716</u>	<u>477,284</u>
Revenues over (under) expenditures	670,000	590,000	1,106,239	516,239
Other financing sources (uses)				
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>-</u>
Net changes in fund balance	(330,000)	(410,000)	106,239	516,239
Fund balance, beginning of year	<u>3,805,402</u>	<u>3,805,402</u>	<u>3,805,402</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,475,402</u>	<u>\$ 3,395,402</u>	<u>\$ 3,911,641</u>	<u>\$ 516,239</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, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 760,000	\$ 894,800	\$ 897,896	\$ 3,096
Investment earnings	2,200	5,900	6,395	495
Miscellaneous	1,000	1,700	511	(1,189)
Total revenues	<u>763,200</u>	<u>902,400</u>	<u>904,802</u>	<u>2,402</u>
Expenditures				
Current				
Public works				
Street maintenance	517,100	681,100	644,634	36,466
Street construction	263,000	495,000	494,015	985
Street administration	124,600	98,800	89,328	9,472
Engineering	68,100	69,100	65,253	3,847
Total expenditures	<u>972,800</u>	<u>1,344,000</u>	<u>1,293,230</u>	<u>50,770</u>
Revenues over (under) expenditures	<u>(209,600)</u>	<u>(441,600)</u>	<u>(388,428)</u>	<u>53,172</u>
Other financing sources (uses)				
Transfers in	473,000	760,000	760,000	-
Transfers out	(263,400)	(263,400)	(263,415)	(15)
Total other financing sources (uses)	<u>209,600</u>	<u>496,600</u>	<u>496,585</u>	<u>(15)</u>
Net changes in fund balance	-	55,000	108,157	53,157
Fund balance, beginning of year	<u>485,926</u>	<u>485,926</u>	<u>485,926</u>	<u>-</u>
Fund balance, end of year	<u>\$ 485,926</u>	<u>\$ 540,926</u>	<u>\$ 594,083</u>	<u>\$ 53,157</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, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 285,000	\$ 425,000	\$ 420,239	\$ (4,761)
Investment earnings	800	12,200	13,273	1,073
Total revenues	<u>285,800</u>	<u>437,200</u>	<u>433,512</u>	<u>(3,688)</u>
Expenditures				
Current				
Public works				
Street maintenance	473,200	597,000	572,845	24,155
Street construction	760,000	1,291,100	1,291,230	(130)
Street administration	<u>122,600</u>	<u>99,100</u>	<u>89,414</u>	<u>9,686</u>
Total expenditures	<u>1,355,800</u>	<u>1,987,200</u>	<u>1,953,489</u>	<u>33,711</u>
Revenues over (under) expenditures	(1,070,000)	(1,550,000)	(1,519,977)	30,023
Other financing source (uses)				
Transfers in	<u>1,070,000</u>	<u>1,180,000</u>	<u>1,180,000</u>	<u>-</u>
Net changes in fund balance	-	(370,000)	(339,977)	30,023
Fund balance, beginning of year	<u>625,161</u>	<u>625,161</u>	<u>625,161</u>	<u>-</u>
Fund balance, end of year	<u>\$ 625,161</u>	<u>\$ 255,161</u>	<u>\$ 285,184</u>	<u>\$ 30,023</u>

CITY OF EAST GRAND RAPIDS

**DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION
LIABILITY AND RELATED RATIOS**

FOR THE YEAR ENDED JUNE 30, 2019

	2014	2015	2016	2017	2018
Total pension liability					
Service cost	\$ 52,264	\$ 53,644	\$ 55,650	\$ 52,483	\$ 41,833
Interest	1,418,426	1,361,488	1,439,882	1,403,486	1,416,984
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	-	268,503	(284,896)	383,019	121,807
Changes in assumptions	-	921,755	-	-	-
Benefit payments including employee refunds	(1,606,741)	(1,684,931)	(1,653,090)	(1,674,899)	(1,654,980)
Other	-	42,544	-	-	1
Net change in total pension liability	<u>(136,051)</u>	<u>963,003</u>	<u>(442,454)</u>	<u>164,089</u>	<u>(74,355)</u>
Total pension liability, beginning of year	<u>17,970,289</u>	<u>17,834,238</u>	<u>18,797,241</u>	<u>18,354,787</u>	<u>18,518,876</u>
Total pension liability, end of year	<u>\$ 17,834,238</u>	<u>\$ 18,797,241</u>	<u>\$ 18,354,787</u>	<u>\$ 18,518,876</u>	<u>\$ 18,444,521</u>
Plan Fiduciary Net Position					
Contributions-employer	\$ 750,996	\$ 815,262	\$ 968,148	\$ 1,123,500	\$ 1,240,368
Contributions-employee	18,124	15,034	17,480	14,249	14,080
Net investment income	600,334	(132,612)	931,223	1,125,955	(354,678)
Benefit payments including employee refunds	(1,606,741)	(1,684,931)	(1,653,090)	(1,674,899)	(1,654,980)
Administrative expense	<u>(21,858)</u>	<u>(19,970)</u>	<u>(18,426)</u>	<u>(17,873)</u>	<u>(17,783)</u>
Net change in plan fiduciary net position	<u>(259,145)</u>	<u>(1,007,217)</u>	<u>245,335</u>	<u>570,932</u>	<u>(772,993)</u>
Plan fiduciary net position, beginning of year	<u>9,756,630</u>	<u>9,497,485</u>	<u>8,490,268</u>	<u>8,735,603</u>	<u>9,306,535</u>
Plan fiduciary net position, end of year	<u>\$ 9,497,485</u>	<u>\$ 8,490,268</u>	<u>\$ 8,735,603</u>	<u>\$ 9,306,535</u>	<u>\$ 8,533,542</u>
Total net pension liability	<u>\$ 8,336,753</u>	<u>\$ 10,306,973</u>	<u>\$ 9,619,184</u>	<u>\$ 9,212,341</u>	<u>\$ 9,910,979</u>
Plan fiduciary net position as a percentage of the total pension liability	53.3%	45.2%	47.6%	50.3%	46.3%
Covered employee payroll	\$ 415,614	\$ 425,735	\$ 437,527	\$ 402,095	\$ 324,417
Employer's net pension liability as a percentage of covered employee payroll	2005.9%	2421.0%	2198.5%	2291.1%	3055.0%

CITY OF EAST GRAND RAPIDS
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019

	2015	2016	2017	2018	2019
Actuarially determined contributions	\$ 736,644	\$ 893,880	\$ 1,042,416	\$ 1,204,584	\$ 1,276,152
Contributions in relation to the actuarially determined contributor	<u>736,644</u>	<u>893,880</u>	<u>1,042,416</u>	<u>1,204,584</u>	<u>1,276,152</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 415,614	\$ 425,735	\$ 437,527	\$ 402,095	\$ 324,417
Contributions as a percentage of covered employee payroll	177%	210%	238%	300%	393%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75% 2014: 8.25%
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 mortality table

CITY OF EAST GRAND RAPIDS

OTHER POST-EMPLOYMENT BENEFITS PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET OPEB LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2019

	2017	2018	2019
Total OPEB liability			
Service cost	\$ 140,181	\$ 148,494	\$ 151,489
Interest	179,527	114,168	117,156
Changes in benefit terms	(126,139)	-	-
Difference between expected and actual experience	(767,215)	137,121	90,081
Changes in assumptions	425,060	53,689	46,177
Benefit payments including employee refunds	(75,031)	(226,255)	(98,437)
Other	-	-	-
Net change in total OPEB liability	<u>(223,617)</u>	<u>227,217</u>	<u>306,466</u>
Total OPEB liability, beginning of year	<u>3,487,884</u>	<u>3,264,267</u>	<u>3,491,484</u>
Total OPEB liability, end of year	<u>\$ 3,264,267</u>	<u>\$ 3,491,484</u>	<u>\$ 3,797,950</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 75,031	\$ 226,255	\$ 112,437
Contributions-employee	-	-	-
Net investment income	79,601	48,773	68,663
Benefit payments including employee refunds	(75,031)	(226,255)	(98,437)
Administrative expense	-	-	-
Other	-	-	-
Net change in plan fiduciary net position	<u>79,601</u>	<u>48,773</u>	<u>82,663</u>
Plan fiduciary net position, beginning of year	<u>1,215,967</u>	<u>1,295,568</u>	<u>1,344,341</u>
Plan fiduciary net position, end of year	<u>\$ 1,295,568</u>	<u>\$ 1,344,341</u>	<u>\$ 1,427,004</u>
Employer net OPEB liability	<u>\$ 1,968,699</u>	<u>\$ 2,147,143</u>	<u>\$ 2,370,946</u>
Plan fiduciary net position as a percentage of the total OPEB liability	40%	39%	38%
Covered employee payroll	\$ 5,022,780	\$ 5,086,305	\$ 5,236,223
Employer's net OPEB liability as a percentage of covered employee payroll	39%	42%	45%

CITY OF EAST GRAND RAPIDS

OTHER POST-EMPLOYMENT BENEFITS PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contributions	\$ -	\$ 300,886	\$ 314,210
Contributions in relation to the actuarially determined contribution	<u>99,352</u>	<u>226,255</u>	<u>112,437</u>
Contribution deficiency (excess)	<u>\$ (99,352)</u>	<u>\$ 74,631</u>	<u>\$ 201,773</u>
 Covered employee payroll	 \$ 5,022,780	 \$ 5,086,305	 \$ 5,236,223
 Contributions as a percentage of covered employee payroll	 2%	 4%	 2%

Notes to schedule

Actuarial cost method	Entry Age Normal (level percent)
Amortization method	Level percent, closed
Remaining amortization period	14 years (average future service)
Asset valuation method	Market value
Inflation	2.1% (3.26% for 2018, 3.46% for 2017)
Salary increases	2.25%
Investment rate of return	4.36% (6.44% for 2018, 7.31% for 2017)
20-year Aa Municipal bond yield	3.15% (3.1% for 2018)
Retirement age	Varies depending on plan adoption
Mortality	RP Mortality with 2018 mortality projections

State of Michigan PA 202 information

Actuarially recommended contributions in accordance with No. Letter 2018-3	\$ 241,345
Minimum required contribution under PA 202	112,437
Actual contribution	112,437
Contribution for employees hired after June 30, 2018 (included above)	14,000

State of Michigan PA 202 assumptions, if different from GASB

- Mortality - PRH 2014 at 2006 with improvement scale MP-2016
- Healthcare cost trend
 - Pre-65 - 8.5% graded .25% per year to 4.5% ultimate rate
 - Medicare - 7.0% graded .25% per year to
 - Salary scale - 3.5%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

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

Pension and OPEB data

The data presented on the schedule of changes in employers net pension liability schedule is based on a December 31 measurement date.

The data presented on the schedule of changes in employers net OPEB liability schedule is based on a June 30 measurement date.

The pension and OPEB schedules are being accumulated prospectively until 10 years of information is presented.

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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, 2019

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 8,574,000	\$ 8,574,000	\$ 8,572,945	\$ (1,055)
Interest and penalties on property taxes	20,000	17,100	17,095	(5)
Total taxes	<u>8,594,000</u>	<u>8,591,100</u>	<u>8,590,040</u>	<u>(1,060)</u>
Intergovernmental revenue				
State shared revenue	978,000	998,000	1,023,855	25,855
Community stabilization	20,000	21,400	21,406	6
State grants	18,300	18,300	18,499	199
Total intergovernmental revenue	<u>1,016,300</u>	<u>1,037,700</u>	<u>1,063,760</u>	<u>26,060</u>
Licenses and permits				
Business licenses	15,000	20,000	22,000	2,000
Building permits	35,000	45,000	50,257	5,257
Other	15,000	18,500	19,140	640
Total licenses and permits	<u>65,000</u>	<u>83,500</u>	<u>91,397</u>	<u>7,897</u>
Charges for services				
Administrative charges	280,000	280,000	280,000	-
Cable television franchise fees	225,000	225,000	206,652	(18,348)
Clerk's services	4,000	8,000	7,102	(898)
Right-of-way fees	35,000	35,000	39,356	4,356
Other	29,900	94,200	89,857	(4,343)
Total charges for services	<u>573,900</u>	<u>642,200</u>	<u>622,967</u>	<u>(19,233)</u>
Recreation fees	<u>1,184,400</u>	<u>1,138,100</u>	<u>1,144,118</u>	<u>6,018</u>
Fines and penalties	<u>35,000</u>	<u>35,000</u>	<u>34,425</u>	<u>(575)</u>
Rentals				
Library rental fee	<u>40,400</u>	<u>40,400</u>	<u>40,425</u>	<u>25</u>
Investment earnings	<u>60,000</u>	<u>105,400</u>	<u>132,355</u>	<u>26,955</u>
Other revenue				
Cable tower rental	68,600	68,600	68,671	71
Cable television capital fees	53,000	53,000	46,317	(6,683)
Miscellaneous revenue	-	18,000	17,480	(520)
Total other revenue	<u>121,600</u>	<u>139,600</u>	<u>132,468</u>	<u>(7,132)</u>
Total revenues	<u>\$ 11,690,600</u>	<u>\$ 11,813,000</u>	<u>\$ 11,851,955</u>	<u>\$ 38,955</u>

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CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
City Commission	\$ 30,200	\$ 56,400	\$ 50,146	\$ 6,254
General government				
City manager	378,200	346,700	322,940	23,760
City attorney	260,000	315,000	294,099	20,901
Elections	23,300	23,300	20,136	3,164
City assessor	122,200	122,200	116,370	5,830
Finance	657,200	679,600	664,489	15,111
Other	219,600	227,200	217,850	9,350
Total general government	1,660,500	1,714,000	1,635,884	78,116
Public safety				
General activity	5,343,500	5,360,200	5,174,446	185,754
State programs	5,500	5,500	3,939	1,561
Total public safety	5,349,000	5,365,700	5,178,385	187,315
Public works				
City buildings	921,000	998,800	957,405	41,395
Zoning administration	152,500	128,900	117,578	11,322
Street lighting	99,000	87,100	79,826	7,274
Wealthy streetscape maintenance	128,300	150,800	129,020	21,780
Waste collection	452,500	475,100	459,046	16,054
Lake restoration	11,400	18,400	17,047	1,353
Tree maintenance and removal	140,300	133,100	111,840	21,260
Total public works	1,905,000	1,992,200	1,871,762	120,438
Parks and recreation				
Parks	800,300	800,800	752,505	48,295
Pool	211,500	204,100	214,214	(10,114)
Special events	148,600	146,600	142,208	4,392
Recreation programming	111,300	99,800	93,450	6,350
Grounds maintenance	429,100	437,800	419,347	18,453
Recreation sports	208,500	201,200	186,610	14,590
Middle school sports	60,100	51,700	49,632	2,068
Acquatic club	91,500	97,700	96,649	1,051
Total culture and recreation	2,060,900	2,039,700	1,954,615	85,085
Debt service	15,000	55,000	54,924	76
Total expenditures	\$ 11,020,600	\$ 11,223,000	\$ 10,745,716	\$ 477,284

CITY OF EAST GRAND RAPIDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2019

	Special Revenue		Debt Service	
	<u>Municipal Streets</u>	<u>Drug Law Enforcement</u>	<u>Wealthy Pool</u>	<u>Municipal Complex</u>
Assets				
Cash and pooled investments	\$ 124,625	\$ 52,139	\$ 5,514	\$ 8,494
Accounts receivable	-	-	-	-
Total assets	<u>\$ 124,625</u>	<u>\$ 52,139</u>	<u>\$ 5,514</u>	<u>\$ 8,494</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 20,979	\$ 5,895	\$ -	\$ -
Total liabilities	<u>20,979</u>	<u>5,895</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources				
Unavailable receivables	-	-	-	-
Fund balances				
Restricted				
Streets	103,646	-	-	-
Drug seizure				
Federal portion	-	18,084	-	-
State portion	-	28,160	-	-
Debt service	-	-	5,514	8,494
Total fund balances	<u>103,646</u>	<u>46,244</u>	<u>5,514</u>	<u>8,494</u>
Total liabilities and fund balances	<u>\$ 124,625</u>	<u>\$ 52,139</u>	<u>\$ 5,514</u>	<u>\$ 8,494</u>

Capital Project		
Streetscape	Special Assessments	Total
\$ -	\$ -	\$ 190,772
-	126,680	126,680
<u>\$ -</u>	<u>\$ 126,680</u>	<u>\$ 317,452</u>
\$ -	\$ -	\$ 26,874
-	-	26,874
-	113,057	113,057
-	13,623	117,269
-	-	18,084
-	-	28,160
-	-	14,008
-	13,623	177,521
<u>\$ -</u>	<u>\$ 126,680</u>	<u>\$ 317,452</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, 2019

	Special Revenue			Debt Service
	Municipal Streets	Drug Law Enforcement	Wealthy Pool	Municipal Complex
Revenues				
Taxes	\$ 1,248,281	\$ -	\$ 147,574	\$ 525,918
Intergovernmental revenues				
Local	-	36,423	-	-
Special assessments	-	-	-	-
Investment earnings	6,922	338	4	37
Total revenues	<u>1,255,203</u>	<u>36,761</u>	<u>147,578</u>	<u>525,955</u>
Expenditures				
Current				
Public safety	-	73,019	-	-
Public works	336,778	-	-	-
Debt service				
Principal	-	-	134,000	315,000
Interest	-	-	11,278	208,700
Total expenditures	<u>336,778</u>	<u>73,019</u>	<u>145,278</u>	<u>523,700</u>
Revenues over (under) expenditures	<u>918,425</u>	<u>(36,258)</u>	<u>2,300</u>	<u>2,255</u>
Other financing sources (uses)				
Transfers in	145,256	-	-	-
Transfers out	(1,065,000)	-	-	-
Total other financing sources (uses)	<u>(919,744)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(1,319)	(36,258)	2,300	2,255
Fund balances, beginning of year	<u>104,965</u>	<u>82,502</u>	<u>3,214</u>	<u>6,239</u>
Fund balances, end of year	<u>\$ 103,646</u>	<u>\$ 46,244</u>	<u>\$ 5,514</u>	<u>\$ 8,494</u>

Capital Project		
<u>Streetscape</u>	<u>Special Assessments</u>	<u>Total</u>
\$ -	\$ -	\$ 1,921,773
-	-	36,423
-	33,728	33,728
-	151	7,452
-	33,879	1,999,376
-	-	73,019
-	-	336,778
255,000	-	704,000
8,415	-	228,393
263,415	-	1,342,190
(263,415)	33,879	657,186
263,415	-	408,671
-	(20,256)	(1,085,256)
263,415	(20,256)	(676,585)
-	13,623	(19,399)
-	-	196,920
<u>\$ -</u>	<u>\$ 13,623</u>	<u>\$ 177,521</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,246,000	\$ 1,249,000	\$ 1,248,281	\$ (719)
Investment earnings	-	6,600	6,922	322
Total revenues	<u>1,246,000</u>	<u>1,255,600</u>	<u>1,255,203</u>	<u>(397)</u>
Expenditures				
Current				
Public works				
Street maintenance	331,500	331,500	332,728	(1,228)
Street construction	56,500	4,100	4,050	50
Total expenditures	<u>388,000</u>	<u>335,600</u>	<u>336,778</u>	<u>(1,178)</u>
Revenues over (under) expenditures	<u>858,000</u>	<u>920,000</u>	<u>918,425</u>	<u>(1,575)</u>
Other financing source (uses)				
Transfers in	480,000	145,000	145,256	256
Transfers out	(1,023,000)	(1,065,000)	(1,065,000)	-
Total other financing sources (uses)	<u>(543,000)</u>	<u>(920,000)</u>	<u>(919,744)</u>	<u>256</u>
Net changes in fund balance	315,000	-	(1,319)	(1,319)
Fund balance, beginning of year	<u>104,965</u>	<u>104,965</u>	<u>104,965</u>	<u>-</u>
Fund balance, end of year	<u>\$ 419,965</u>	<u>\$ 104,965</u>	<u>\$ 103,646</u>	<u>\$ (1,319)</u>

CITY OF EAST GRAND RAPIDS

**DRUG LAW ENFORCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
Local	\$ 50,000	\$ 36,400	\$ 36,423	\$ 23
Investment earnings	-	300	338	38
Total revenues	50,000	36,700	36,761	61
Expenditures				
Current				
Public safety				
Drug law enforcement	16,600	76,200	73,019	3,181
Net changes in fund balance	33,400	(39,500)	(36,258)	3,242
Fund balance, beginning of year	82,502	82,502	82,502	-
Fund balance, end of year	<u>\$ 115,902</u>	<u>\$ 43,002</u>	<u>\$ 46,244</u>	<u>\$ 3,242</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2019

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 527,453	\$ 916,546	\$ 1,443,999
Accounts receivable	3,354	524	3,878
Due from other funds	-	140,126	140,126
Prepaid and other assets	35,572	50,457	86,029
Inventory	43,891	-	43,891
	610,270	1,107,653	1,717,923
Total current assets			
Capital assets			
Capital assets being depreciated	5,268,509	-	5,268,509
Less accumulated depreciation	(3,180,725)	-	(3,180,725)
	2,087,784	-	2,087,784
Net capital assets			
	2,087,784	-	2,087,784
Total assets	2,698,054	1,107,653	3,805,707
Liabilities			
Current liabilities			
Accounts payable	10,712	48,200	58,912
Due to other funds	4,544	-	4,544
Accrued liabilities	4,604	260,491	265,095
Compensated absences	9,472	-	9,472
	29,332	308,691	338,023
Total liabilities	29,332	308,691	338,023
Net position			
Net investment in capital assets	2,087,784	-	2,087,784
Unrestricted	580,938	798,962	1,379,900
	2,668,722	798,962	3,467,684
Total net position	\$ 2,668,722	\$ 798,962	\$ 3,467,684

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Operating revenue			
Charges for services	\$ 748,810	\$ 1,661,827	\$ 2,410,637
Other	<u>32,694</u>	<u>64,457</u>	<u>97,151</u>
Total operating revenue	<u>781,504</u>	<u>1,726,284</u>	<u>2,507,788</u>
Operating expense			
Salaries and wages	220,126	-	220,126
Contracted services	6,240	528,397	534,637
Materials and supplies	222,757	-	222,757
Equipment	5,924	-	5,924
Claims	-	858,142	858,142
Administration	-	82,052	82,052
Depreciation	<u>443,030</u>	<u>-</u>	<u>443,030</u>
Total operating expense	<u>898,077</u>	<u>1,468,591</u>	<u>2,366,668</u>
Operating income (loss)	(116,573)	257,693	141,120
Non-operating revenue (expense)			
Investment earnings	<u>6,633</u>	<u>11,774</u>	<u>18,407</u>
Changes in net position	(109,940)	269,467	159,527
Net position, beginning of year	<u>2,778,662</u>	<u>529,495</u>	<u>3,308,157</u>
Net position, end of year	<u>\$ 2,668,722</u>	<u>\$ 798,962</u>	<u>\$ 3,467,684</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Motor Pool	Health Insurance	Total
Cash flows from operating activities			
Receipts from internal services provided	\$ 779,455	\$ 1,859,213	\$ 2,638,668
Payments to employees	(223,746)	-	(223,746)
Payments to suppliers	(269,181)	(1,449,831)	(1,719,012)
	<u>286,528</u>	<u>409,382</u>	<u>695,910</u>
Net cash provided by (used in) operating activities			
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(234,119)	-	(234,119)
Cash flows from investing activities			
Interest income	<u>6,633</u>	<u>11,774</u>	<u>18,407</u>
Net increase (decrease) in cash and pooled investments	59,042	421,156	480,198
Cash and pooled investments, beginning of year	<u>468,411</u>	<u>495,390</u>	<u>963,801</u>
Cash and pooled investments, end of year	<u>\$ 527,453</u>	<u>\$ 916,546</u>	<u>\$ 1,443,999</u>
Cash flows from operating activities			
Operating income (loss)	\$ (116,573)	\$ 257,693	\$ 141,120
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	443,030	-	443,030
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	(2,260)	137,700	135,440
Due from other funds	-	(4,771)	(4,771)
Prepaid and other assets	(31,874)	(2,510)	(34,384)
Inventory	5,676	-	5,676
Accounts payable	(8,062)	44,628	36,566
Due to other funds	211	-	211
Accrued liabilities	90	(23,358)	(23,268)
Compensated absences	(3,710)	-	(3,710)
	<u>286,528</u>	<u>409,382</u>	<u>695,910</u>
Net cash provided by (used in) operating activities			

INTERNAL CONTROL AND COMPLIANCE



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

September 27, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 27, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Orlando Haefner LLC