



**CITY OF GRANDVILLE
GRANDVILLE, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

CITY OF GRANDVILLE, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

November 10, 2011

Honorable Mayor and
Members of the City Council
Grandville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Grandville, Michigan* (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grandville, Michigan as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of the City of Grandville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 and the Schedules of Funding Progress and Employer Contributions on pages 45-46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grandville'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 City of Grandville's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Grandville (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Grandville for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Fiscal year 2011 was a year of significant activity at the City, including:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$51,745,974 (*net assets*).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,020,104, an increase of \$639,569 from the prior year.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,645,850 or 30% of general fund expenditures and transfers out.
- Progress on a renovation and expansion project at the Clean Water Plant.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) or 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 public safety, judicial, public works, culture and recreation, and general administrative services. The business-type activities of the City include water and sewer services.

The government-wide financial statements include not only the City of Grandville itself (known as the *primary government*), but also a legally separate Downtown Development Authority and a legally separate Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

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 of Grandville, 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 government'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 government's near-term financing decisions. Following both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances are reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Grandville maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its equipment and vehicles. Because these services predominately benefit governmental rather than business-type functions, they have been included within *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 operations, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-22 of this report.

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 statements because the resources of those 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.

The basic fiduciary fund financial statements can be found on page 23 of this report.

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. The notes to the financial statements can be found on pages 26-44 of this report.

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 management discussion and analysis and required pension and other postemployment benefits information. Required supplementary information regarding the funded status and employer contributions to the pension and other postemployment benefits plans can be found on page 45-46 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and continuing disclosure information are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 47-65 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Grandville, assets exceeded liabilities by \$51,745,974 at the close of the most recent fiscal year.

City of Grandville's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 7,242,940	\$ 6,998,999	\$ 11,690,019	\$ 7,103,993	\$ 18,932,959	\$ 14,102,992
Capital assets, net	16,812,328	17,392,655	32,812,070	19,494,487	49,624,398	36,887,142
Total assets	24,055,268	24,391,654	44,502,089	26,598,480	68,557,357	50,990,134
Liabilities						
Long-term liabilities	5,983,364	6,341,131	6,845,902	2,500,279	12,829,266	8,841,410
Other liabilities	464,304	552,678	3,517,813	621,385	3,982,117	1,174,063
Total liabilities	6,447,668	6,893,809	10,363,715	3,121,664	16,811,383	10,015,473
Net assets						
Invested in capital assets, net of related debt	11,540,706	11,791,826	28,314,821	17,098,964	39,855,527	28,890,790
Restricted	1,724,410	1,529,432	534,249	388,673	2,258,659	1,918,105
Unrestricted	4,342,484	4,176,587	5,289,304	5,989,179	9,631,788	10,165,766
Total net assets	\$17,607,600	\$17,497,845	\$34,138,374	\$23,476,816	\$51,745,974	\$40,974,661

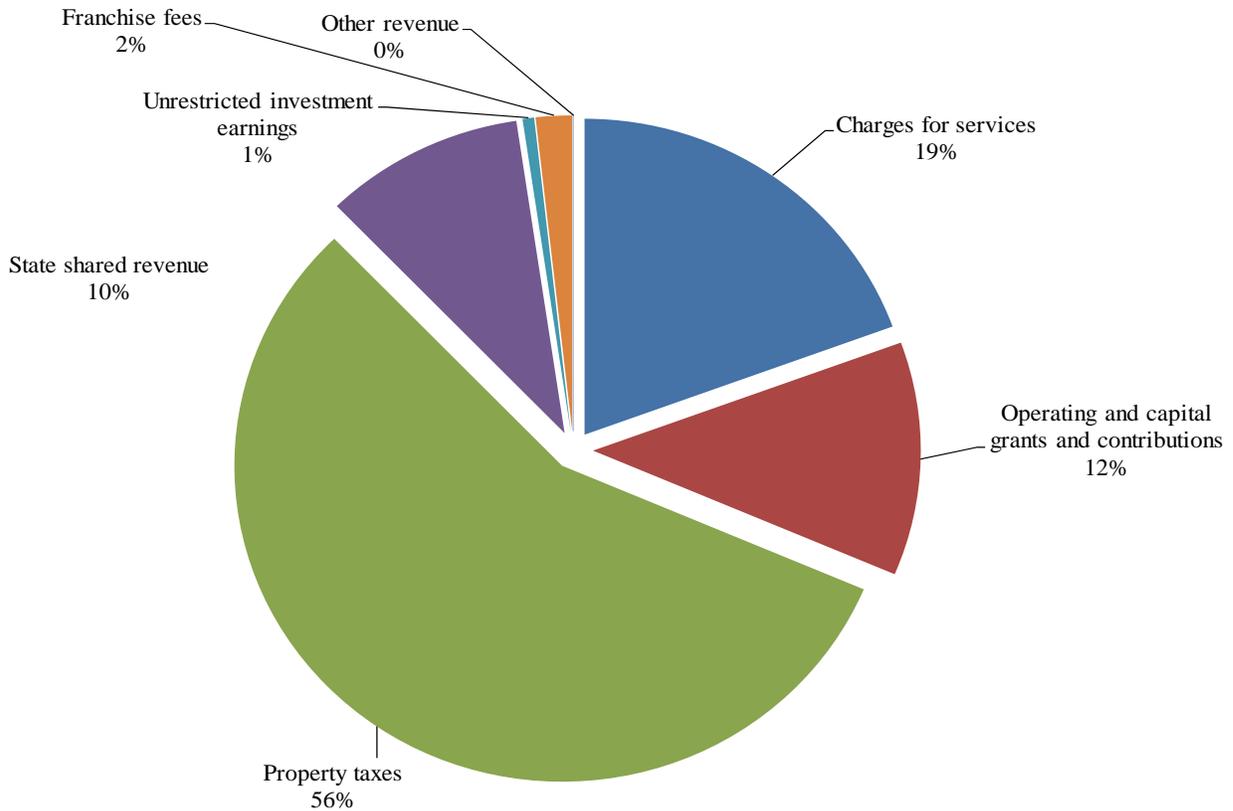
By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Grandville'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.

Certain net assets of governmental activities at year-end have been restricted, primarily by funding sources for major and local streets and debt service purposes. Of the net asset balance at year end, 66% is invested in capital assets net of related debt, 9% is restricted for other purposes and 25% is unrestricted and available for general City operations.

City of Grandville's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 2,123,503	\$ 2,125,700	\$ 6,182,994	\$ 6,192,864	\$ 8,306,497	\$ 8,318,564
Operating grants and contributions	1,103,613	1,105,824	62,039	63,919	1,165,652	1,169,743
Capital grants and contributions	204,774	43,680	11,238,235	-	11,443,009	43,680
General revenues:						
Property taxes	6,167,203	6,062,558	-	-	6,167,203	6,062,558
State shared revenue	1,080,343	1,080,343	-	-	1,080,343	1,080,343
Franchise fees	195,252	183,883	-	-	195,252	183,883
Insurance recoveries	66,208	-	-	-	66,208	-
Unrestricted investment earnings	62,737	84,463	-	-	62,737	84,463
Gain on sale of capital assets	261	-	-	-	261	-
Other revenue	-	87,704	-	-	-	87,704
Total revenues	11,003,894	10,774,155	17,483,268	6,256,783	28,487,162	17,030,938
Expenses						
General government	2,252,214	2,339,888	-	-	2,252,214	2,339,888
Judicial	610,045	596,153	-	-	610,045	596,153
Public safety	4,550,733	3,999,372	-	-	4,550,733	3,999,372
Public works	2,254,287	4,209,210	-	-	2,254,287	4,209,210
Recreation and cultural	1,000,870	1,560,440	-	-	1,000,870	1,560,440
Interest on long-term debt	253,261	267,972	-	-	253,261	267,972
Sewer	-	-	4,730,170	4,862,812	4,730,170	4,862,812
Water	-	-	2,064,269	1,813,634	2,064,269	1,813,634
Total expenses	10,921,410	12,973,035	6,794,439	6,676,446	17,715,849	19,649,481
Change in net assets before transfers	82,484	(2,198,880)	10,688,829	(419,663)	10,771,313	(2,618,543)
Transfers	27,271	25,085	(27,271)	(25,085)	-	-
Change in net assets	109,755	(2,173,795)	10,661,558	(444,748)	10,771,313	(2,618,543)
Net assets, beginning of year	17,497,845	19,671,640	23,476,816	23,921,564	40,974,661	43,593,204
Net assets, end of year	\$17,607,600	\$17,497,845	\$34,138,374	\$23,476,816	\$51,745,974	\$40,974,661

Governmental activities. Governmental activities increased the City’s net assets by \$109,755. This is primarily due to an insurance reimbursement from a fire at Mill Race Park designated for future construction and the construction of Peck Street Park from CDBG funds.



Business-type activities. Business-type activities increased the City’s net assets by \$10,661,558. The key element of this increase was a capital contribution in the sewer fund of over \$11 million related to expansion of the City’s Clean Water Plant, being financed through bonds issued by Ottawa County. These bonds are backed by the full faith and credit of Ottawa County and three municipalities and not a liability of the City of Grandville.

Financial Analysis of the Government’s Funds

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

Governmental funds. The focus of the City of Grandville’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 of Grandville’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Grandville's governmental funds reported combined ending fund balance of \$5,020,104, an increase of \$639,569 compared with the prior year. This increase is related to a number of factors. Street repair of approximately \$200,000 budgeted for Major and Local Streets was not completed in the current fiscal year and will be carried forward to the 2011/2012 fiscal year expenditures. Also the general fund had higher than expected revenue along with lower than expected expenditures (see detail below), therefore, fund balance increased by approximately \$475,000.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,645,850 while total fund balance reached \$3,354,842. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 30% of total general fund expenditures and transfers out, while total fund balance represents 40% of that same amount.

The fund balance of the City of Grandville's general fund increased by \$475,878 during the current fiscal year. This increase was mainly related to increased revenue for cable franchise fees, court revenue, and approximately \$65,000 for an insurance reimbursement that is being held for future expense. Along with increased revenue, there were also reductions in expenditures for attorney fees, dispatch service, property and liability insurance, and parks maintenance.

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$734,560 and \$4,554,744, respectively. The total changes in net assets for these funds were an increase of \$445,348 and an increase of \$11,106,906 respectively. The asset increase in the Water Fund was due to the water main replacements for Yellowstone and Wilfred. Other factors concerning the finances of the Sewer Fund has already been addressed in the discussion of the City of Grandville's business-type activities.

General Fund Budgetary Highlights

- Variances between the original and final amended budgets were relatively minor.
- Licenses and permits revenue exceeded original budget by approximately \$93,000. This was primarily related to a rebound in the economy and increased demand for building permits.
- Attorney expenditures in the general government function were approximately \$93,000 less than the final amended budget due to the Tax Tribunal cases being handled in-house by our Level 4 Assessor and the District Court Attorney charging a fixed rate.
- Police expenditures in the public safety function were approximately \$201,000 under budget primarily due to the Drug Forfeiture purchases budgeted but not purchased in current fiscal year, reduction in overtime, and transfer of dispatch services to Kent County from Wyoming.
- Parks and recreation expenditures in the recreation and culture function were approximately \$84,000 under budget due to reduced payment for trail maintenance, reduction in charges for equipment rental, and using current staff to perform weed control and fertilization for park grounds.

Capital Asset and Debt Administration

Capital assets. The City of Grandville's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$49,624,398 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Purchase of several vehicles for various departments
- Various resurfacing projects related to major and local streets
- Construction and engineering costs related to the clean water system renovation and expansion

City of Grandville's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,738,397	\$ 1,738,397	\$ 15,000	\$ 15,000	\$ 1,753,397	\$ 1,753,397
Construction in progress	53,227	-	13,728,445	402,816	13,781,672	402,816
Depreciable assets	15,020,704	15,654,258	19,068,625	19,076,671	34,089,329	34,730,929
Total	\$ 16,812,328	\$ 17,392,655	\$ 32,812,070	\$ 19,494,487	\$ 49,624,398	\$ 36,887,142

Additional information on the City of Grandville's capital assets can be found in Note 6 on pages 36-38 of this report.

Long-term debt of the City is summarized as follows:

City of Grandville's Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 5,350,000	\$ 5,690,000	\$ 6,835,000	\$ 2,500,000	\$ 12,185,000	\$ 8,880,000
* Other obligations	633,364	651,131	10,902	279	644,266	621,522
Total	\$ 5,983,364	\$ 6,341,131	\$ 6,845,902	\$ 2,500,279	\$ 12,829,266	\$ 9,501,522

The City's total debt increased by \$3,327,744.

*Additional information on the City of Grandville long-term obligations can be found in Note 7 on pages 38-39 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2011-12 fiscal year:

- Maintain the same millage rate as 2010-11 fiscal year of 9.154.
- Pay freezes and required health insurance contributions for all union employees.
- Reduction of one full time Firefighter/EMS position and a full time position reduced to part time in the Probation Department.
- Allocation of 1.155 mills of general millage to Major and Local Street Funds.
- Commodity rates for water were increased from \$1.89 to \$1.99 per 1,000 gallons and commodity rates for sewer increased from \$2.74 to \$2.88 per thousand gallons.
- Water ready-to-serve charges were increased from \$7.51 to \$8.76 per quarter to pay for the increased costs of operating and maintaining the City's water system.

Requests for Information

This financial report is designed to provide a general overview of the City of Grandville finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tammy Hopman, Treasurer/Finance Director, City of Grandville, 3195 Wilson SW, Grandville, MI 49418.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Pooled cash and investments	\$ 5,224,787	\$ 3,756,690	\$ 8,981,477	\$ 2,426,229
Restricted cash and investments	658,195	3,646,002	4,304,197	-
Receivables, net	557,896	4,086,925	4,644,821	7,929
Land held for sale	-	-	-	70,000
Net pension asset	717,243	-	717,243	-
Net other postemployment benefits asset	13,807	-	13,807	-
Deferred bond issuance costs, net	71,012	200,402	271,414	-
Capital assets not being depreciated	1,791,624	13,743,445	15,535,069	264,567
Capital assets being depreciated, net	15,020,704	19,068,625	34,089,329	237,208
	24,055,268	44,502,089	68,557,357	3,005,933
Liabilities				
Accounts payable and accrued liabilities	464,304	3,517,813	3,982,117	25,166
Long-term debt:				
Due in one year	751,017	462,121	1,213,138	-
Due in more than one year	5,232,347	6,383,781	11,616,128	-
	6,447,668	10,363,715	16,811,383	25,166
Net assets				
Invested in capital assets, net of related debt	11,540,706	28,314,821	39,855,527	501,775
Restricted for:				
Drug law enforcement	132,289	-	132,289	-
Drunk driving caseflow	52,947	-	52,947	-
Public works	1,065,070	-	1,065,070	-
Debt service	474,104	534,249	1,008,353	-
Unrestricted	4,342,484	5,289,304	9,631,788	2,478,992
	\$ 17,607,600	\$ 34,138,374	\$ 51,745,974	\$ 2,980,767

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 2,252,214	\$ 1,254,563	\$ 27,888	\$ 85,313	\$ (884,450)
Judicial	610,045	337,332	56,675	-	(216,038)
Public safety	4,550,733	329,839	28,487	-	(4,192,407)
Public works	2,254,287	-	990,563	42,804	(1,220,920)
Recreation and cultural	1,000,870	201,769	-	76,657	(722,444)
Interest on long-term debt	253,261	-	-	-	(253,261)
Total general revenue and transfers	10,921,410	2,123,503	1,103,613	204,774	(7,489,520)
Business-type activities:					
Sewer	4,730,170	4,560,062	58,779	11,238,235	11,126,906
Water	2,064,269	1,622,932	3,260	-	(438,077)
Total business-type activities	6,794,439	6,182,994	62,039	11,238,235	10,688,829
Total primary government	\$ 17,715,849	\$ 8,306,497	\$ 1,165,652	\$ 11,443,009	\$ 3,199,309
Component unit					
Downtown Development Authority	\$ 128,232	\$ 1,660	\$ -	\$ -	\$ (126,572)
Brownfield Redevelopment Authority	5,715	-	1,000,000	-	994,285
Total component unit	\$ 133,947	\$ 1,660	\$ 1,000,000	\$ -	\$ 867,713

(continued)

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Changes in net assets				
Net (expense) revenue	\$ (7,489,520)	\$ 10,688,829	\$ 3,199,309	\$ 867,713
General revenue:				
Property taxes	6,167,203	-	6,167,203	310,658
State shared revenue	1,080,343	-	1,080,343	-
Franchise fees	195,252	-	195,252	-
Insurance recoveries	66,208	-	66,208	-
Unrestricted investment earnings	62,737	-	62,737	20,615
Gain on sale of capital assets	261	-	261	-
Transfers	27,271	(27,271)	-	-
Total general revenue and transfers	7,599,275	(27,271)	7,572,004	331,273
Change in net assets	109,755	10,661,558	10,771,313	1,198,986
Net assets, beginning of year	17,497,845	23,476,816	40,974,661	1,781,781
Net assets, end of year	\$ 17,607,600	\$ 34,138,374	\$ 51,745,974	\$ 2,980,767

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

FUND FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Pooled cash and investments	\$ 3,223,345	\$ 1,052,111	\$ 4,275,456
Restricted cash and investments	132,289	525,906	658,195
Accounts receivable	89,026	321	89,347
Special assessments receivable	-	76,768	76,768
Interest receivable	8,288	3,150	11,438
Due from other governments	225,211	151,423	376,634
Total assets	\$ 3,678,159	\$ 1,809,679	\$ 5,487,838
Liabilities			
Accounts payable	\$ 234,202	\$ 65,775	\$ 299,977
Accrued and other liabilities	89,115	1,874	90,989
Deferred revenue	-	76,768	76,768
Total liabilities	323,317	144,417	467,734
Fund balances (note 11)			
Restricted	185,236	1,514,208	1,699,444
Committed	523,756	151,054	674,810
Unassigned	2,645,850	-	2,645,850
Total fund balances	3,354,842	1,665,262	5,020,104
Total liabilities and fund balances	\$ 3,678,159	\$ 1,809,679	\$ 5,487,838

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

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to the Net Assets of Governmental
Activities on the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds \$ 5,020,104

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	1,791,624
Capital assets being depreciated, net	14,054,918

Some items are recorded as revenues and expenditures in the fund statements when paid or when received. These items are recorded on the government-wide statements when incurred in the case of expenditures and when revenues are earned.

Net pension asset	717,243
Net other postemployment benefits asset	13,807
Deferred special assessments receivable	76,768

Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.

Net assets of governmental activities accounted for in internal service funds	1,890,275
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Unamortized bond issuance costs	71,012
Bonds and notes payable	(5,350,000)
Unamortized premium on bonds payable	(66,031)
Unamortized deferred loss on bond refunding	144,409
Accrued interest payable on long-term debt	(51,802)
Compensated absences	(704,727)
	(704,727)

Net assets of governmental activities	\$ 17,607,600
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,538,689	\$ 628,514	\$ 6,167,203
Licenses and permits	209,573	-	209,573
Intergovernmental	1,322,453	989,620	2,312,073
Fines and forfeitures	732,985	-	732,985
Charges for services	660,547	7,563	668,110
Interest income	38,592	15,351	53,943
Rental income	5,140	460,680	465,820
Cable revenue	195,252	-	195,252
Other revenue	54,578	-	54,578
	<hr/>	<hr/>	<hr/>
Total revenue	8,757,809	2,101,728	10,859,537
Expenditures			
Current:			
General government	2,651,259	-	2,651,259
Judicial	569,682	-	569,682
Public safety	3,975,379	-	3,975,379
Public works	311,025	1,353,246	1,664,271
Recreation and culture	870,794	-	870,794
Debt service:			
Principal	-	340,000	340,000
Interest	-	242,062	242,062
	<hr/>	<hr/>	<hr/>
Total expenditures	8,378,139	1,935,308	10,313,447
Revenue over (under) expenditures	<hr/>	<hr/>	<hr/>
	379,670	166,420	546,090
Other financing sources (uses)			
Transfers in	30,000	127,724	157,724
Transfers out	-	(130,453)	(130,453)
Insurance recoveries	66,208	-	66,208
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	96,208	(2,729)	93,479
Net change in fund balances	475,878	163,691	639,569
Fund balances, beginning of year	<hr/>	<hr/>	<hr/>
	2,878,964	1,501,571	4,380,535
Fund balances, end of year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 3,354,842	\$ 1,665,262	\$ 5,020,104

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

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ 639,569

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 is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	171,903
Donated capital assets	76,657
Depreciation expense	(935,523)
Loss on disposal of capital assets	(15,680)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Change in deferred special assessments receivable	(7,563)
Principal payments on long-term debt	340,000

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.

Change in the accrual for interest payable on long-term debt	4,666
Amortization of bond premium	9,094
Amortization of deferred loss on bond refunding	(19,887)
Amortization of deferred bond issuance costs	(5,072)
Change in the accrual for compensated absences	28,511
Change in the net pension asset	(29,364)
Change in the net other postemployment benefits asset	(633)

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

Loss from governmental activities in internal service funds	(146,923)
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Change in net assets of governmental activities	\$ 109,755
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,610,833	\$ 5,610,833	\$ 5,538,689	\$ (72,144)
Licenses and permits	115,650	170,650	209,573	38,923
Intergovernmental	1,361,594	1,454,894	1,322,453	(132,441)
Fines and forfeitures	658,750	658,750	732,985	74,235
Charges for services	632,977	632,977	660,547	27,570
Interest income	93,600	93,600	38,592	(55,008)
Rental income	4,500	4,500	5,140	640
Cable revenue	130,000	130,000	195,252	65,252
Other revenue	47,661	47,661	54,578	6,917
Total revenue	8,655,565	8,803,865	8,757,809	(46,056)
Expenditures				
Current:				
General government	2,752,706	2,825,506	2,651,259	(174,247)
Judicial	563,454	576,954	569,682	(7,272)
Public safety	4,174,879	4,200,879	3,975,379	(225,500)
Public works	311,936	311,936	311,025	(911)
Recreation and culture	1,013,015	1,013,015	870,794	(142,221)
Total expenditures	8,815,990	8,928,290	8,378,139	(550,151)
Revenue over (under) expenditures	(160,425)	(124,425)	379,670	504,095
Other financing sources				
Transfers in	30,000	30,000	30,000	-
Insurance recoveries	-	-	66,208	66,208
Total other financing sources	30,000	30,000	96,208	66,208
Net change in fund balances	(130,425)	(94,425)	475,878	570,303
Fund balances, beginning of year	2,878,964	2,878,964	2,878,964	-
Fund balances, end of year	\$ 2,748,539	\$ 2,784,539	\$ 3,354,842	\$ 570,303

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Assets				
Current assets:				
Pooled cash and investments	\$ 442,287	\$ 3,314,403	\$ 3,756,690	\$ 949,331
Restricted cash and investments	-	3,646,002	3,646,002	-
Accounts receivable	449,192	1,183,600	1,632,792	921
Interest receivable	1,177	28,792	29,969	2,788
Due from other governments	-	2,424,164	2,424,164	-
Total current assets	892,656	10,596,961	11,489,617	953,040
Noncurrent assets:				
Deferred bond issuance costs	-	200,402	200,402	-
Capital assets not being depreciated	17,750	13,725,695	13,743,445	-
Capital assets being depreciated, net	8,902,263	10,166,362	19,068,625	965,786
Total noncurrent assets	8,920,013	24,092,459	33,012,472	965,786
Total assets	9,812,669	34,689,420	44,502,089	1,918,826
Liabilities				
Current liabilities:				
Accounts payable	131,269	3,322,346	3,453,615	21,032
Accrued liabilities	1,240	62,958	64,198	504
Current portion of compensated absences	18,915	73,794	92,709	7,015
Current portion of bonds payable	-	369,412	369,412	-
Total current liabilities	151,424	3,828,510	3,979,934	28,551
Noncurrent liabilities:				
Compensated absences, net of current portion	6,672	11,732	18,404	-
Bonds payable, net of current portion	-	6,365,377	6,365,377	-
Total noncurrent liabilities	6,672	6,377,109	6,383,781	-
Total liabilities	158,096	10,205,619	10,363,715	28,551
Net assets				
Invested in capital assets, net of related debt	8,920,013	19,394,808	28,314,821	965,786
Restricted for debt service	-	534,249	534,249	-
Unrestricted	734,560	4,554,744	5,289,304	924,489
Total net assets	\$ 9,654,573	\$ 24,483,801	\$ 34,138,374	\$ 1,890,275

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u> <u>Activities</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
Operating revenue				
Charges for services	\$ 1,606,751	\$ 4,541,960	\$ 6,148,711	\$ 515,984
Interest and penalty charges	16,181	18,102	34,283	-
Total operating revenue	<u>1,622,932</u>	<u>4,560,062</u>	<u>6,182,994</u>	<u>515,984</u>
Operating expenses				
Cost of water produced/purchased	1,159,846	-	1,159,846	-
Cost of sewage treatment	-	1,381,002	1,381,002	-
Cost of labor	382,068	1,333,011	1,715,079	155,838
Administrative costs, supplies, and other	170,264	1,186,650	1,356,914	346,279
Depreciation	352,091	541,462	893,553	169,845
Total operating expenses	<u>2,064,269</u>	<u>4,442,125</u>	<u>6,506,394</u>	<u>671,962</u>
Operating (loss) income	<u>(441,337)</u>	<u>117,937</u>	<u>(323,400)</u>	<u>(155,978)</u>
Non-operating revenue (expenses)				
Interest income	3,260	58,779	62,039	8,794
Interest expense	-	(288,045)	(288,045)	-
Gain on sale of capital assets	-	-	-	261
Total non-operating revenue (expenses)	<u>3,260</u>	<u>(229,266)</u>	<u>(226,006)</u>	<u>9,055</u>
Net loss before transfers	<u>(438,077)</u>	<u>(111,329)</u>	<u>(549,406)</u>	<u>(146,923)</u>
Transfers				
Transfers in	2,729	-	2,729	-
Transfers out	(10,000)	(20,000)	(30,000)	-
Total transfers	<u>(7,271)</u>	<u>(20,000)</u>	<u>(27,271)</u>	<u>-</u>
Capital contributions	<u>-</u>	<u>11,238,235</u>	<u>11,238,235</u>	<u>-</u>
Change in net assets	(445,348)	11,106,906	10,661,558	(146,923)
Net assets, beginning of year, as restated	<u>10,099,921</u>	<u>13,376,895</u>	<u>23,476,816</u>	<u>2,037,198</u>
Net assets, end of year	<u>\$ 9,654,573</u>	<u>\$ 24,483,801</u>	<u>\$ 34,138,374</u>	<u>\$ 1,890,275</u>

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 1,609,625	\$ 4,519,072	\$ 6,128,697	\$ -
Payments to suppliers	(1,433,263)	(1,939,537)	(3,372,800)	(343,066)
Payments to employees	(391,262)	(1,370,158)	(1,761,420)	(160,135)
Internal activity - receipts from other funds	-	-	-	515,984
Net cash provided by (used in) operating activities	(214,900)	1,209,377	994,477	12,783
Cash flows from capital and related financing activities				
Purchase of capital assets	(696,179)	(13,514,906)	(14,211,085)	(294,500)
Proceeds from sale of capital assets	-	-	-	2,600
Issuance of bonds payable	-	4,710,000	4,710,000	-
Contributions from Ottawa County	-	11,238,235	11,238,235	-
Discount on issuance of bonds payable	-	(25,399)	(25,399)	-
Payments for bond issuance costs	-	(149,839)	(149,839)	-
Principal paid on long-term debt	-	(375,000)	(375,000)	-
Interest paid on long-term debt	-	(242,852)	(242,852)	-
Net cash provided by (used in) capital and related financing activities	(696,179)	1,640,239	944,060	(291,900)
Cash flows from noncapital financing activities				
Transfers in	2,729	-	2,729	-
Transfers out	(10,000)	(20,000)	(30,000)	-
Net cash used in noncapital financing activities	(7,271)	(20,000)	(27,271)	-
Cash flows from investing activities				
Interest income received	3,260	58,779	62,039	8,794
Net change in cash and cash equivalents	(915,090)	2,888,395	1,973,305	(270,323)
Cash and investments, beginning of year	1,357,377	4,072,010	5,429,387	1,219,654
Cash and investments, end of year	\$ 442,287	\$ 6,960,405	\$ 7,402,692	\$ 949,331
Cash and investments are presented on the statement of net assets as follows:				
Pooled cash and investments	\$ 442,287	\$ 3,314,403	\$ 3,756,690	\$ 949,331
Restricted cash and investments	-	3,646,002	3,646,002	-
	\$ 442,287	\$ 6,960,405	\$ 7,402,692	\$ 949,331

(continued)

CITY OF GRANDVILLE, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
Cash flows from operating activities				
Operating loss	\$ (441,337)	\$ 117,937	\$ (323,400)	\$ (155,978)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	352,091	541,462	893,553	169,845
Changes in assets/liabilities:				
Accounts receivable	(15,737)	(21,911)	(37,648)	(921)
Interest receivable	2,430	(19,079)	(16,649)	425
Due from other governments	-	(2,424,164)	(2,424,164)	-
Accounts payable	(103,153)	3,052,279	2,949,126	3,709
Accrued liabilities	(9,499)	(43,199)	(52,698)	(4,248)
Compensated absences	305	6,052	6,357	(49)
Net cash provided by (used in) operating activities	<u>\$ (214,900)</u>	<u>\$ 1,209,377</u>	<u>\$ 994,477</u>	<u>\$ 12,783</u>

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

Assets

Cash and pooled investments	<u>\$ 133,403</u>
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Liabilities

Due to Parks and Recreation Board	\$ 52,548
Due to 59th District Court	56,704
Due to property developers	9,657
Due to other governments	<u>14,494</u>

Total liabilities	<u>\$ 133,403</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2011

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Assets			
Pooled cash and investments	\$ 2,405,836	\$ 20,393	\$ 2,426,229
Receivables, net	7,929	-	7,929
Land held for sale	70,000	-	70,000
Capital assets not being depreciated	264,567	-	264,567
Capital assets being depreciated, net	237,208	-	237,208
Total assets	<u>2,985,540</u>	<u>20,393</u>	<u>3,005,933</u>
Liabilities			
Accounts payable and accrued liabilities	<u>24,738</u>	<u>428</u>	<u>25,166</u>
Net assets			
Invested in capital assets	501,775	-	501,775
Unrestricted	<u>2,459,027</u>	<u>19,965</u>	<u>2,478,992</u>
Total net assets	<u>\$ 2,960,802</u>	<u>\$ 19,965</u>	<u>\$ 2,980,767</u>

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

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Activities
Discretely Presented Component Units
For the Year Ended June 30, 2011

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Downtown Development Authority	\$ 128,232	\$ -	\$ 128,232
Brownfield Redevelopment Authority	-	5,715	5,715
Total expenses	128,232	5,715	133,947
Program revenues			
Charges for services	1,660	-	1,660
Operating grants and contributions	-	1,000,000	1,000,000
Total program revenues	1,660	1,000,000	1,001,660
Net revenue (expense)	(126,572)	994,285	867,713
General revenues			
Property taxes	299,041	11,617	310,658
Unrestricted investment earnings	20,615	-	20,615
Total general revenues	319,656	11,617	331,273
Net change in net assets	193,084	1,005,902	1,198,986
Net assets (deficit), beginning of year	2,767,718	(985,937)	1,781,781
Net assets, end of year	\$ 2,960,802	\$ 19,965	\$ 2,980,767

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Grandville (the “City”) was incorporated under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, health and welfare services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

As required by generally accepted accounting principles, 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, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. A separate section of the financial statements provides detailed financial information on the discretely presented component unit.

Blended Component Unit

Building Authority – The Building Authority is an entity legally separate from the City. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations because its purpose is to acquire, construct and equip public buildings on behalf of the City.

Discretely Presented Component Units

Downtown Development Authority – The Downtown Development Authority was established to correct and prevent deterioration, encourage historical preservation, and to promote economic growth within the downtown district. The Authority is governed by a nine person Board of Directors appointed by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Separate financial statements are not prepared for the Downtown Development Authority.

Brownfield Redevelopment Authority – The Brownfield Redevelopment Authority was established to account for the redevelopment of environmentally contaminated and other underutilized sites within the City. The Authority is governed by a seven person Board of Directors appointed by the City Council. Separate financial statements are not prepared for the Brownfield Redevelopment Authority.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, 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 are 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 a 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. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund. General fund activities are financed by revenue from income taxes, property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary funds:

The *water fund* is used to account for the operation, maintenance and capital improvement of the water system and retirement of related debt.

The *sewer fund* is used to account for the operation, maintenance and capital improvement of the wastewater system and retirement of related debt.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for restricted or committed revenues for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of governmental activities long-term and special assessment debt, principal, interest and related costs.

The *internal service fund* is used to account for operations that provide services (such as major machinery and equipment purchases and maintenance) to other departments of the government on a cost reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The legal level of budgetary control is at the activity level.
5. Formal budgetary integration is employed as a management control device during the year for all funds except agency funds. Budget appropriations lapse at year-end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2011. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

Pooled Cash and Investments

For purposes of the statement of cash flows, the City considers all assets held in highly liquid investments with an original maturity of three months or less to be cash and temporary investments. Investments are stated at fair value in accordance with GASB Statement No. 31.

Restricted Cash and Investments

Restricted cash and investments of enterprise funds consist of amounts held in accordance with debt covenants. Restricted cash and investments in the major streets fund consist of proceeds from an early payoff on a special assessment, which is being held until the related bonds become due and payable.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are considered by management to be immaterial.

Special Assessments

Special assessments are recorded as revenue when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue. Special assessments are billed annually.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Due from Other Governments

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program and capital grants are recorded as receivables and revenue at the time reimbursable costs are incurred. Revenues received in advance of costs being incurred are deferred.

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

Land Held for Sale

The Downtown Development Authority component unit has ownership of a parcel of land that is currently being held for sale.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Roads and sidewalks	10-50
Water and sewer distribution systems	10-100
Land improvements	15-20
Building and building improvements	7-45
Vehicles	3-15
Office furnishings	5-20
Other tools and equipment	5-40

Intangible Assets

Amounts reported as intangible assets in business-type activities consist of infrastructure usage rights. The amount is being amortized over 40 years on a straight-line basis.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Deferred Revenue

Funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Compensated Absences

The City's policy allows employees to earn and accumulate sick and vacation pay benefits. Accrued compensated absences are reported in the proprietary and governmental fund types to the extent that they will be liquidated with expendable available financial resources, and the long-term balance payable from governmental funds is recorded on the statement of net assets.

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 statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Property Taxes

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 31, and winter taxes are levied on December 1 and are due without penalty on or before February 14. The City bills and collects its own property taxes for general governmental services. A portion of the general fund levy is allocated to the major and local streets special revenue funds each year, as determined by the City Council. Additionally, the City collects taxes for Kent County and various townships and school districts. Collections of property taxes and remittances to the appropriate authorities are accounted for in the county and school tax agency fund.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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. During the year ended June 30, 2011, the City carried commercial insurance to cover risk of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. The City has not significantly reduced insurance coverage during the past year.

Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000, is as follows:

Cumulative shortfall at June 30, 2010	\$ (6,125)
Building permit revenue	155,542
Related expenses:	
Direct costs	150,379
Estimated indirect costs	<u>1,585</u>
Cumulative shortfall at June 30, 2011	<u>\$ (2,547)</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2011, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
General government:			
Legislative	\$ 37,899	\$ 38,132	\$ 233
Treasurer	164,687	165,012	325
Building inspection	580,214	604,270	24,056
Public safety:			
Narcotics enforcement	7,200	8,412	1,212
Public works:			
Highways, streets and bridges	211,100	236,927	25,827
Recreation and culture:			
Special projects	117,800	129,575	11,775

3. DEPOSITS AND INVESTMENTS

The government-wide and fund financial statement captions relating to cash and investments are as follows:

	Primary Government	Component Units	Fiduciary Funds	Total
Pooled cash and investments	\$ 8,981,477	\$ 2,426,229	\$ 133,403	\$ 11,541,109
Restricted cash and investments	4,304,197	-	-	4,304,197
Total cash and investments	\$ 13,285,674	\$ 2,426,229	\$ 133,403	\$ 15,845,306

These deposits are in 17 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. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

Cash and investments are composed of the following at June 30, 2011:

Checking/savings accounts	\$ 4,926,893
Certificates of deposit (due within one year)	9,816,303
Investments	1,101,808
Cash on hand	302
Total cash and investments	\$ 15,845,306

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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. The City believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of year-end, \$10,610,910 of the City’s bank balance of \$14,869,314 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the City’s investments as of June 30, 2011:

Government mutual funds	\$ 73,420
Kent County investment pool	<u>1,028,388</u>
	<u>\$ 1,101,808</u>

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 the investment custodial risk.

Credit Risk. State law limits the investments of local governments, as detailed below. The City’s investment policy does not have specific limits in excess of State law on investment credit risk. Credit risk ratings, where applicable, are summarized as follows:

Standard and Poor’s AAAm	\$ 73,420
Unrated	<u>1,028,388</u>
	<u>\$ 1,101,808</u>

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. 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. None of the investments held by the City at year-end have a specified maturity date.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City’s investment policy requires that not more than 25 percent of the total City funds classified as investments may be invested in commercial paper or investment pools and not more than 10 percent may be invested in repurchase agreements or bankers’ acceptances.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, 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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

- 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 through December 31, 1997.

4. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts	\$ 90,268	\$ 1,632,792	\$ 98
Special assessments	76,768	-	-
Due from other governments	376,634	2,424,164	-
Interest	14,226	29,969	7,831
Total	\$ 557,896	\$ 4,086,925	\$ 7,929

Of the amounts reported above, \$67,286 of special assessments receivable reported in nonmajor governmental funds are not expected to be collected within one year.

Accounts payable and accrued liabilities in the government-wide financial statements are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts	\$ 321,009	\$ 2,130,445	\$ 25,057
Retainage	-	1,323,170	-
Accrued liabilities	91,493	20,292	109
Accrued interest on long-term debt	51,802	43,906	-
Total	\$ 464,304	\$ 3,517,813	\$ 25,166

5. INTERFUND TRANSACTIONS

For the year ended June 30, 2011, interfund transfers consisted of the following:

<u>Transfers out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water Enterprise Fund</u>	
Nonmajor governmental funds	\$ -	\$ 127,724	\$ 2,729	\$ 130,453
Water enterprise fund	10,000	-	-	10,000
Sewer enterprise fund	20,000	-	-	20,000
	\$ 30,000	\$ 127,724	\$ 2,729	\$ 160,453

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) reimburse the general fund for administrative expenses incurred.

6. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2011, are as follows:

	Beginning of Year	Additions	Disposals	End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 1,738,397	\$ -	\$ -	\$ 1,738,397
Construction in progress	-	53,227	-	53,227
Total capital assets not being depreciated	<u>1,738,397</u>	<u>53,227</u>	<u>-</u>	<u>1,791,624</u>
Capital assets being depreciated:				
Infrastructure	78,688,545	-	-	78,688,545
Land improvements	1,436,775	76,657	-	1,513,432
Buildings and improvements	8,944,441	-	(25,200)	8,919,241
Office furnishings and equipment	4,810,041	413,176	(293,676)	4,929,541
Total capital assets being depreciated	<u>93,879,802</u>	<u>489,833</u>	<u>(318,876)</u>	<u>94,050,759</u>
Less accumulated depreciation for:				
Infrastructure	(70,294,011)	(590,131)	-	(70,884,142)
Land improvements	(1,007,807)	(50,918)	-	(1,058,725)
Buildings and improvements	(3,109,345)	(256,714)	12,040	(3,354,019)
Office furnishings and equipment	(3,814,381)	(207,605)	288,817	(3,733,169)
Total accumulated depreciation	<u>(78,225,544)</u>	<u>(1,105,368)</u>	<u>300,857</u>	<u>(79,030,055)</u>
Net capital assets being depreciated	<u>15,654,258</u>	<u>(615,535)</u>	<u>(18,019)</u>	<u>15,020,704</u>
Net governmental activities capital assets	<u>\$ 17,392,655</u>	<u>\$ (562,308)</u>	<u>\$ (18,019)</u>	<u>\$ 16,812,328</u>

Construction in progress in governmental activities consisted of initial costs on a street improvement project. The balance remaining on this contract at June 30, 2011 was \$251,373.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning of Year	Additions	Disposals	End of Year
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	402,816	13,372,121	(46,492)	13,728,445
Total capital assets not being depreciated	417,816	13,372,121	(46,492)	13,743,445
Capital assets being depreciated:				
Land improvements	31,676	-	-	31,676
Water and sewer distribution systems	18,505,060	854,323	-	19,359,383
Intangible assets	4,500,000	-	-	4,500,000
Buildings and building improvements	7,223,838	-	-	7,223,841
Other tools and equipment	3,130,779	31,133	-	3,161,912
Total capital assets being depreciated	33,391,353	885,456	-	34,276,809
Less accumulated depreciation for:				
Land improvements	(4,752)	(1,583)	-	(6,335)
Water and sewer distribution systems	(7,476,492)	(480,491)	-	(7,956,983)
Intangible assets	(1,687,500)	(112,500)	-	(1,800,000)
Buildings and building improvements	(2,735,190)	(146,512)	-	(2,881,702)
Other tools and equipment	(2,410,748)	(152,416)	-	(2,563,164)
Total accumulated depreciation	(14,314,682)	(893,502)	-	(15,208,184)
Net capital assets being depreciated	19,076,671	(8,046)	(46,492)	19,068,625
Net business-type activities capital assets	\$ 19,494,487	\$ 13,364,075	\$ (46,492)	\$ 32,812,070
Component Unit - Downtown Development Authority				
Capital assets not being depreciated:				
Land	\$ 264,567	\$ -	\$ -	\$ 264,567
Capital assets being depreciated:				
Land improvements	466,854	149,386	-	616,240
Less accumulated depreciation for:				
Land improvements	(362,636)	(16,396)	-	(379,032)
Net capital assets being depreciated	104,218	132,990	-	237,208
Net Downtown Development Authority capital assets	\$ 368,785	\$ 132,990	\$ -	\$ 501,775

Construction in progress reported in business-type activities as of June 30, 2011 related to engineering fees for a future cleanwater plant renovation project. The amount of commitments outstanding at June 30, 2011 for this project was \$11,992,191. Of this amount, \$9,582,134 is expected to be paid with proceeds of system revenue bonds issued by Ottawa County in 2010.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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

Governmental activities	
General government	\$ 29,895
Judicial	43,025
Public safety	107,437
Public works	617,752
Recreation and culture	137,414
Depreciation charged to internal service funds	169,845
Total depreciation expense – governmental activities	\$ 1,105,368
Business-type activities	
Water	\$ 352,091
Sewer	541,411
Total depreciation expense – business-type activities	\$ 893,502

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2011:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Governmental activities					
2007 Capital Improvement Bonds; payable in annual installments of \$35,000 to \$110,00 through 2016 with interest payable annually at 4.399%	\$ 600,000	\$ -	\$ 95,000	\$ 505,000	\$ 95,000
2005 Building Authority Refunding Bonds; payable in annual installments of \$25,000 to 450,000 through 2025 with interest payable at 3.25 – 5.00%	5,090,000	-	245,000	4,845,000	255,000
Subtotal – installment debt	5,690,000	-	340,000	5,350,000	350,000
Deferred loss on refunding	(164,296)	-	(19,887)	(144,409)	(18,875)
Unamortized discount	75,125	-	9,094	66,031	8,630
Compensated absences	740,302	460,437	488,997	711,742	411,262
Total governmental activities	\$6,341,131	\$ 333,671	\$ -	\$5,983,364	\$ 751,017

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Business-type activities					
2006 Sewage System Revenue Bonds; payable in annual installments of \$335,000 to \$460,000 through 2016 with interest payable semi-annually at 4.00%.	\$ 2,500,000	\$ -	\$ 375,000	\$ 2,125,000	\$ 395,000
2010 Sewage System Revenue Bonds; payable in semi-annual installments of \$25,000 to \$340,000 through 2035 with interest payable semi-annually at 2.25% to 4.25%.	-	4,710,000	-	4,710,000	-
Subtotal – installment debt	2,500,000	4,710,000	375,000	6,835,000	395,000
Deferred loss on refunding	(132,234)	-	(36,569)	(95,665)	(31,084)
Unamortized bond premiums	27,757	-	7,676	20,081	6,525
Unamortized bond discounts	-	(25,399)	(772)	(24,627)	(1,029)
Compensated absences	104,756	99,109	92,752	111,113	92,709
Total business-type activities	\$ 2,500,279	\$ 4,783,710	\$ 438,087	\$ 6,845,902	\$ 462,121

Component Unit – Brownfield Redevelopment Authority

2006 Michigan Department of Environmental Quality, paid in full in fiscal year 2011	\$1,000,000	\$ -	\$ 1,000,000	\$ -	\$ -
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The annual requirements, excluding compensated absences, unamortized losses on refunding, and unamortized premiums, to maturity on the total long-term obligations outstanding at June 30, 2011 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 350,000	\$ 127,638	\$ 395,000	\$ 263,435
2013	360,000	117,084	405,000	247,635
2014	375,000	106,280	425,000	231,435
2015	390,000	95,101	465,000	214,435
2016	400,000	83,547	485,000	196,273
2017-2021	1,790,000	285,630	945,000	832,025
2022-2026	1,685,000	90,454	1,105,000	666,625
2027-2031	-	-	1,330,000	442,141
2032-2035	-	-	1,280,000	138,762
	\$ 5,350,000	\$ 905,734	\$6,835,000	\$3,232,766

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

8. PENSION PLANS

Defined Benefit Pension Plan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute a fixed monthly rate per bargaining unit. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2011 the City's annual pension cost for MERS of \$703,750 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (five year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, was ten years.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
06/30/2009	\$ 692,442	96%	\$ 738,780
06/30/2010	671,076	100%	746,607
06/30/2011	733,114	100%	717,243

The net pension asset is calculated as follows:

Annual required contribution	\$ 703,750
Interest on net pension asset	(59,729)
Adjustment to annual required contribution	<u>89,092</u>
Net pension cost	733,114
Contributions made	<u>(703,750)</u>
Decrease in net pension asset	(29,364)
Net pension asset, beginning of year	<u>746,607</u>
Net pension asset, end of year	<u>\$ 717,243</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$17,050,089, and the actuarial value of assets was \$11,785,439, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,264,650. The covered payroll (annual payroll of active employees covered by the plan) was \$1,288,311 and the ratio of the UAAL to the covered payroll was 409 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees not participating in the defined benefit plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 9 percent of administration and department of public works employees' eligible earnings, as defined in the Plan document. Effective January 1, 2011, the contribution rate for department of public works employees was increased to 10 percent. The City contributes 10 percent of police sergeant, police rank and file, and cleanwater employees' eligible earnings, as defined in the Plan document. The Employee contributions, plus interest allocated to the employees' account, are fully vested after five years of service. Employer and employee contributions during the current year were \$336,214 and \$131,921, respectively.

9. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City has elected to provide postemployment health benefits to all full-time employees upon retirement. As of the most recent actuarial valuation, 12 retirees were eligible for postemployment health benefits. The City includes pre-Medicare retirees in its insured healthcare plan and pays the monthly premium cost in effect at the date of retirement through the date of eligibility for Medicare. The participant must pay any balance for increases in premiums after the date of retirement. Effective June 22, 2009, the City began advance funding this obligation through the Michigan Municipal Employees' Retirement Systems (MERS) Retiree Health Funding Vehicle.

Funding Policy. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go basis". The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2011, the City paid postemployment healthcare premiums of \$143,918 and made a deposit of \$111,684 into the MERS Retiree Health Funding Vehicle for future premiums. The City will, at its discretion, contribute amounts determined annually using the actuarial report.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two years prior was as follows:

<u>Fiscal Year Ended</u>	<u>Net OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
06/30/2009	\$ 277,638	103%	\$ 9,167
06/30/2010	281,547	102%	14,440
06/30/2011	256,235	100%	13,807

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

Annual required contribution	\$ 255,602
Interest on net OPEB obligation	(793)
Adjustment to annual required contribution	<u>1,426</u>
Net OPEB cost	256,235
Contributions made	<u>(255,602)</u>
Decrease in net OPEB asset	(633)
Net OPEB asset, beginning of year	<u>14,440</u>
Net OPEB asset, end of year	<u>\$ 13,807</u>

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the plan was 24 percent funded. The actuarial accrued liability for benefits was \$1,908,407, and the actuarial value of assets was \$460,164, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,448,243.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

In the June 30, 2011 actuarial valuation, the project unit credit (level dollar) method was used. The actuarial assumptions included: (a) a rate of return on investments of 5.5%; and (b) projected healthcare benefit increases of 3.0%, downgraded to 0% over 3 years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized on the level dollar basis over 16 years on a closed basis. The remaining amortization period at June 30, 2011, the date of the latest actuarial valuation, was 14 years.

10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for employees; as such, the plan assets and liabilities are not included in this report. At June 30, 2011, \$2,323,918 was held in trust for employees.

11. FUND BALANCES – GOVERNMENTAL FUNDS

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. While the classifications of fund balance in the City's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total
Restricted for:			
Major and local streets	\$ -	\$ 988,296	\$ 988,296
Repayment of special assessment debt*	-	525,906	525,906
Special assessment districts	-	6	6
Drunk driving caseflow	52,947	-	52,947
Drug law enforcement	132,289	-	132,289
Total restricted	185,236	1,514,208	1,699,444
Committed for:			
Retiree healthcare (OPEB)	55,630	-	55,630
Cemetery perpetual care	468,126	-	468,126
Storm sewer maintenance	-	147,024	147,024
Debt service	-	4,030	4,030
Total committed	523,756	151,054	674,810
Unassigned	2,645,850	-	2,645,850
Total fund balances - governmental funds	\$ 3,354,842	\$ 1,665,262	\$ 5,020,104

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

*The City received payment in full on a multi-year special assessment, levied to cover debt service on special assessment debt. A prepayment fee would be incurred by the City for advance payment on the outstanding debt. As such, amounts are being held by the City until due based on the original debt amortization schedule.

12. NET ASSETS INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 1,791,624	\$ 13,734,445	\$ 264,567
Capital assets being depreciated, net	15,020,704	19,068,925	237,208
	16,812,328	32,812,070	501,775
Related debt:			
Total bonds and notes payable	5,350,000	6,835,000	-
Net bond premium/discount	66,031	(4,546)	-
Deferred loss on advance refunding	(144,409)	(95,665)	-
Unexpended bond proceeds	-	(2,273,540)	-
	5,271,622	4,497,249	-
Invested in capital assets, net related debt	\$ 11,540,706	\$ 28,314,821	\$ 501,775

13. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRANDVILLE, MICHIGAN
Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2005	\$ 9,684,551	\$ 14,671,555	\$ 4,987,004	66.0%	\$ 1,574,234	316.8%
12/31/2006	10,039,232	15,426,109	5,386,877	65.1%	1,557,268	345.9%
12/31/2007	10,498,547	16,047,141	5,548,594	65.4%	1,589,971	349.0%
12/31/2008	11,432,259	16,563,234	5,130,975	69.0%	1,496,770	342.8%
12/31/2009	11,585,134	16,909,249	5,324,115	68.5%	1,489,196	357.5%
12/31/2010	11,785,439	17,050,089	5,264,650	69.1%	1,288,311	408.6%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net Pension (Obligation) Asset
06/30/2006	\$ 312,037	100%	\$ -
06/30/2007	489,168	100%	-
06/30/2008	545,724	240%	766,256
06/30/2009	692,442	96%	738,780
06/30/2010	671,076	100%	746,607
06/30/2011	703,750	100%	717,243

CITY OF GRANDVILLE, MICHIGAN
Required Supplementary Information
Single Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of Funding Progress

(1) Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	\$ -	\$ 1,833,834	\$ 1,833,834	0.0%	(3)	(3)
06/30/2010	460,164	1,908,407	1,448,243	24.1%	(3)	(3)

Schedule of Employer Contributions

(2) Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net Pension (Obligation) Asset
06/30/2009	\$ 277,638	103%	\$ 9,167
06/30/2010	281,455	102%	14,440
06/30/2011	255,602	100%	13,807

- (1) A plan of this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary
- (2) The City implemented GASB Statement No. 45 in fiscal year 2009. Additional years of data will be provided as they become available
- (3) Information not available

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES**

GENERAL FUND

CITY OF GRANDVILLE, MICHIGAN
Detailed Schedule of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,610,833	\$ 5,610,833	\$ 5,538,689	\$ (72,144)
Licenses and permits	115,650	170,650	209,573	38,923
Intergovernmental	1,361,594	1,454,894	1,322,453	(132,441)
Fines and forfeitures	658,750	658,750	732,985	74,235
Charges for services	632,977	632,977	660,547	27,570
Interest income	93,600	93,600	38,592	(55,008)
Rental income	4,500	4,500	5,140	640
Cable revenue	130,000	130,000	195,252	65,252
Other revenue	47,661	47,661	54,578	6,917
Total revenue	8,655,565	8,803,865	8,757,809	(46,056)
Expenditures				
Current:				
General government:				
Legislative	37,899	37,899	38,132	233
Assessor	194,223	194,223	180,791	(13,432)
Attorney	380,000	330,000	287,261	(42,739)
Clerk	158,307	148,807	148,659	(148)
Treasurer	164,687	164,687	165,012	325
Executive	218,050	213,050	199,702	(13,348)
Probation	445,545	445,545	414,420	(31,125)
Court	40,096	40,096	33,875	(6,221)
Building inspection	530,214	580,214	604,270	24,056
General administration	583,685	670,985	579,137	(91,848)
Total general government	2,752,706	2,825,506	2,651,259	(174,247)
Judicial	563,454	576,954	569,682	(7,272)
Public safety:				
Narcotics enforcement	7,200	7,200	8,412	1,212
Police	3,269,229	3,235,229	3,067,960	(167,269)
Fire	898,450	958,450	899,007	(59,443)
Total public safety	4,174,879	4,200,879	3,975,379	(225,500)

(continued)

CITY OF GRANDVILLE, MICHIGAN
Detailed Schedule of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
General Fund (Concluded)
For the Year Ended June 30, 2011

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>With Final</u> <u>Budget</u>
Expenditures (concluded)				
Current (concluded):				
Public works:				
Sidewalk maintenance	\$ 21,559	\$ 21,559	\$ 13,280	\$ (8,279)
Parking lot maintenance	39,922	39,922	23,729	(16,193)
Highways, streets, and bridges	211,100	211,100	236,927	25,827
Sanitation and other	39,355	39,355	37,089	(2,266)
Total public works	<u>311,936</u>	<u>311,936</u>	<u>311,025</u>	<u>(911)</u>
Recreation and culture:				
Cemetery	216,243	216,243	187,895	(28,348)
Special projects	117,800	117,800	129,575	11,775
Planning and zoning	31,747	31,747	23,094	(8,653)
Parks and recreation	405,079	405,079	321,468	(83,611)
Library	110,286	110,286	96,461	(13,825)
Other	131,860	131,860	112,301	(19,559)
Total recreation and culture	<u>1,013,015</u>	<u>1,013,015</u>	<u>870,794</u>	<u>(142,221)</u>
Total expenditures	<u>8,815,990</u>	<u>8,928,290</u>	<u>8,378,139</u>	<u>(550,151)</u>
Revenue over (under) expenditures	<u>(160,425)</u>	<u>(124,425)</u>	<u>379,670</u>	<u>504,095</u>
Other financing sources				
Transfers in	30,000	30,000	30,000	-
Insurance recoveries	-	-	66,208	66,208
Total other financing sources	<u>30,000</u>	<u>30,000</u>	<u>96,208</u>	<u>66,208</u>
Net change in fund balances	(130,425)	(94,425)	475,878	570,303
Fund balances, beginning of year	<u>2,878,964</u>	<u>2,878,964</u>	<u>2,878,964</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,748,539</u>	<u>\$ 2,784,539</u>	<u>\$ 3,354,842</u>	<u>\$ 570,303</u>

Note: for financial statement presentation, cemetery operations and other postemployment benefit (retiree health) activities are combined with the general fund.

NONMAJOR GOVERNMENTAL FUNDS

CITY OF GRANDVILLE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue			
	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Assets				
Pooled cash and investments	\$ 522,678	\$ 378,760	\$ 6	\$ 146,637
Restricted cash and investments	525,906	-	-	-
Accounts receivable	-	321	-	-
Special assessments receivable	-	-	76,768	-
Interest receivable	1,580	1,149	-	421
Due from other governments	110,689	40,734	-	-
Total assets	\$ 1,160,853	\$ 420,964	\$ 76,774	\$ 147,058
Liabilities				
Accounts payable	\$ 48,173	\$ 17,602	\$ -	\$ -
Accrued and other liabilities	961	879	-	34
Deferred revenue	-	-	76,768	-
Total liabilities	49,134	18,481	76,768	34
Fund balances				
Restricted	1,111,719	402,483	6	-
Committed	-	-	-	147,024
Total fund balances	1,111,719	402,483	6	147,024
Total liabilities and fund balances	\$ 1,160,853	\$ 420,964	\$ 76,774	\$ 147,058

Debt Service	
Building Authority	Totals
\$ 4,030	\$ 1,052,111
-	525,906
-	321
-	76,768
-	3,150
-	151,423
<u>\$ 4,030</u>	<u>\$ 1,809,679</u>
\$ -	\$ 65,775
-	1,874
-	76,768
<u>-</u>	<u>144,417</u>
-	1,514,208
<u>4,030</u>	<u>151,054</u>
<u>4,030</u>	<u>1,665,262</u>
<u>\$ 4,030</u>	<u>\$ 1,809,679</u>

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Revenue, Expenditures
and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue			
	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Revenue				
Property taxes	\$ 221,539	\$ 406,975	\$ -	\$ -
Intergovernmental	737,157	252,463	-	-
Charges for services	-	-	7,563	-
Interest income	8,606	3,899	1,512	1,253
Rental income	-	-	-	-
Total revenue	967,302	663,337	9,075	1,253
Expenditures				
Current:				
Public works	780,381	498,135	-	74,730
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	780,381	498,135	-	74,730
Revenue over (under) expenditures	186,921	165,202	9,075	(73,477)
Other financing sources (uses)				
Transfers in	6,342	-	-	-
Transfers out	(121,382)	-	(9,071)	-
Total other financing sources (uses)	(115,040)	-	(9,071)	-
Net change in fund balances	71,881	165,202	4	(73,477)
Fund balances, beginning of year	1,039,838	237,281	2	220,501
Fund balances, end of year	\$ 1,111,719	\$ 402,483	\$ 6	\$ 147,024

Debt Service	
Building Authority	Totals
\$ -	\$ 628,514
-	989,620
-	7,563
81	15,351
<u>460,680</u>	<u>460,680</u>
<u>460,761</u>	<u>2,101,728</u>
-	1,353,246
340,000	340,000
<u>242,062</u>	<u>242,062</u>
<u>582,062</u>	<u>1,935,308</u>
<u>(121,301)</u>	<u>166,420</u>
121,382	127,724
<u>-</u>	<u>(130,453)</u>
<u>121,382</u>	<u>(2,729)</u>
81	163,691
<u>3,949</u>	<u>1,501,571</u>
<u>\$ 4,030</u>	<u>\$ 1,665,262</u>

CITY OF GRANDVILLE, MICHIGAN
Schedule of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2011

	Major Streets			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenue				
Property taxes	\$ 220,225	\$ 220,225	\$ 221,539	\$ 1,314
Intergovernmental	715,000	715,000	737,157	22,157
Charges for services	-	-	-	-
Interest income	1,500	1,500	8,606	7,106
	<hr/>			
Total revenue	936,725	936,725	967,302	30,577
Expenditures				
Current:				
Public works	1,166,286	1,166,286	780,381	(385,905)
	<hr/>			
Revenue over (under) expenditures	(229,561)	(229,561)	186,921	416,482
<hr/>				
Other financing sources (uses)				
Transfers in	127,784	127,784	6,342	(121,442)
Transfers out	(121,394)	(121,394)	(121,382)	12
	<hr/>			
Total other financing sources (uses)	6,390	6,390	(115,040)	(121,430)
	<hr/>			
Net change in fund balances	(223,171)	(223,171)	71,881	295,052
	<hr/>			
Fund balances, beginning of year	1,039,838	1,039,838	1,039,838	-
	<hr/>			
Fund balances, end of year	\$ 816,667	\$ 816,667	\$ 1,111,719	\$ 295,052
	<hr/>			

Local Streets

Original Budget	Final Budget	Actual	Variance With Final Budget
\$ 404,561	\$ 404,561	\$ 406,975	\$ 2,414
245,000	245,000	252,463	7,463
-	-	-	-
1,000	1,000	3,899	2,899
650,561	650,561	663,337	12,776
734,375	734,375	498,135	(236,240)
(83,814)	(83,814)	165,202	249,016
-	-	-	-
-	-	-	-
-	-	-	-
(83,814)	(83,814)	165,202	249,016
237,281	237,281	237,281	-
\$ 153,467	\$ 153,467	\$ 402,483	\$ 249,016

(continued)

CITY OF GRANDVILLE, MICHIGAN
Schedule of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
Nonmajor Special Revenue Funds (Concluded)
For the Year Ended June 30, 2011

	Revolving			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	7,757	7,757	7,563	(194)
Interest income	1,297	1,297	1,512	215
	<hr/>			
Total revenue	9,054	9,054	9,075	21
Expenditures				
Current:				
Public works	-	-	-	-
	<hr/>			
Revenue over (under) expenditures	9,054	9,054	9,075	21
	<hr/>			
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(9,054)	(9,120)	(9,071)	49
	<hr/>			
Total other financing sources (uses)	(9,054)	(9,120)	(9,071)	49
	<hr/>			
Net change in fund balances	-	(66)	4	70
Fund balances, beginning of year	2	2	2	-
	<hr/>			
Fund balances, end of year	\$ 2	\$ (64)	\$ 6	\$ 70
	<hr/>			

Storm Sewer Trunkage

Original Budget	Final Budget	Actual	Variance With Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
1,500	1,500	-	(1,500)
1,800	1,800	1,253	(547)
3,300	3,300	1,253	(2,047)
54,853	88,853	74,730	(14,123)
(51,553)	(85,553)	(73,477)	12,076
-	-	-	-
-	-	-	-
-	-	-	-
(51,553)	(85,553)	(73,477)	12,076
220,501	220,501	220,501	-
\$ 168,948	\$ 134,948	\$ 147,024	\$ 12,076

AGENCY FUNDS

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2011

	Trust and Agency	County and School Tax	Totals
Assets			
Cash and cash equivalents	\$ 118,909	\$ 14,494	\$ 133,403
Liabilities			
Due to Parks and Recreation Board	\$ 52,548	\$ -	\$ 52,548
Due to 59th District Court	56,704	-	56,704
Due to property developers	9,657	-	9,657
Due to other governments	-	14,494	14,494
Total liabilities	\$ 118,909	\$ 14,494	\$ 133,403

COMPONENT UNITS

CITY OF GRANDVILLE, MICHIGAN
Balance Sheet
Downtown Development Authority - Governmental Fund
June 30, 2011

Assets

Pooled cash and investments	\$ 2,405,836
Accounts receivable	98
Interest receivable	7,831
Land held for sale	<u>70,000</u>
 Total assets	 <u><u>\$ 2,483,765</u></u>

Liabilities

Accounts payable	\$ 24,629
Accrued liabilities	<u>109</u>
 Total liabilities	 <u>24,738</u>

Fund balance

Nonspendable	70,000
Unassigned	<u>2,389,027</u>
 Total fund balance	 <u>2,459,027</u>
 Total liabilities and fund balance	 <u><u>\$ 2,483,765</u></u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Component Units on the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds	\$ 2,459,027
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Capital assets not being depreciated	264,567	
Capital assets being depreciated, net	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black;">237,208</td> </tr> </table>	237,208
237,208		
Net assets of governmental activities	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 2,960,802</td> </tr> </table>	\$ 2,960,802
\$ 2,960,802		

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Downtown Development Authority - Governmental Fund
For the Year Ended June 30, 2011

Revenue	
Taxes	\$ 299,041
Charges for services	1,660
Interest	<u>20,615</u>
Total revenue	<u>321,316</u>
Expenditures	
Current:	
Other expenditures	96,316
Capital outlay	<u>164,906</u>
Total expenditures	<u>261,222</u>
Net change in fund balance	60,094
Fund balance, beginning of year	<u>2,398,933</u>
Fund balance, end of year	<u><u>\$ 2,459,027</u></u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net changes in fund balances - total governmental funds	\$ 60,094
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Capital assets purchased/constructed	149,386
Depreciation expense	<u>(16,396)</u>
Change in net assets of governmental activities	<u><u>\$ 193,084</u></u>

CITY OF GRANDVILLE, MICHIGAN
Balance Sheet
Brownfield Redevelopment Authority - Governmental Fund
June 30, 2011

Assets	
Cash	\$ 20,393
	<u> </u>
Liabilities	
Accounts payable	\$ 428
	<u> </u>
Fund balance	
Unassigned	19,965
	<u> </u>
Total liabilities and fund balance	<u>\$ 20,393</u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Component Units on the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds \$ 19,965

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

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Bonds payable	-
Net assets of governmental activities	\$ 19,965

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Brownfield Redevelopment Authority - Governmental Fund
For the Year Ended June 30, 2011

Revenue	
Property taxes	\$ 11,617
Local revenue	<u>1,000,000</u>
Total revenue	<u>1,011,617</u>
Expenditures	
Current:	
Other expenditures	5,715
Debt service:	
Principal	<u>1,000,000</u>
Total expenditures	<u>1,005,715</u>
Net change in fund balance	5,902
Fund balance, beginning of year	<u>14,063</u>
Fund balance, end of year	<u><u>\$ 19,965</u></u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net changes in fund balances - total governmental funds \$ 5,902

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

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on bonds payable	<u>1,000,000</u>
Change in net assets of governmental activities	<u>\$ 1,005,902</u>

INTERNAL CONTROL AND COMPLIANCE

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

November 10, 2011

Honorable Mayor and
Members of the City Council
Grandville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the *City of Grandville, Michigan* (the "City"), as of and for the year ended June 30, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grandville, Michigan'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*.

We noted certain matters that we reported to management of the City of Grandville, Michigan in a separated letter dated November 10, 2011.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

November 10, 2011

To the City Council
City of Grandville
Grandville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Grandville* (the “City”) for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 1, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on October 18, 2011.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. Other than the adoption of GASB Statement No. 54, which is described in Note 11 to the financial statements, no other new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the MERS agent multiple-employer defined benefit plan and the City of Grandville single-employer defined benefit other postemployment benefits plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transactions occurred during the year:

- In a previous period, the City's Brownfield Redevelopment Authority issued a \$1,000,000 loan on behalf of a local developer. In accordance with the terms of the agreement, the developer was required to make annual payments to the City to cover the full amount of principal and interest expense on the bonds payable. When the agreement was initially made, the City required that the developer obtain a letter of credit in the full amount of the loan as security. During fiscal year 2011, the developer defaulted on the agreement. The City drew on the letter of credit and repaid the balance of the loan.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. However, we did identify one significant adjustment in the Sewer Enterprise fund, to record construction in progress and capital contributions revenue for the cost of the work completed through June 30, 2011 on the cleanwater plant expansion. This expansion is being funded at no cost to the City through bonds issued by Ottawa County and the City of Grandville has no obligation for repayment of the debt.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated November 10, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

City of Grandville

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of the City of Grandville (the "City") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Other Matters

Segregation of Incompatible Duties

In connection with our audit of the 2010 financial statements, we recommended various enhancements to the City's internal controls over financial reporting--specifically related to the segregation of incompatible duties. We are pleased to note that the City made substantial improvements in 2011 by segregating incompatible duties and implementing independent review and approval of various financial transactions. At this point, the City may determine that no further segregation is feasible due to its limited number of staff. However, for your consideration, we have noted the following accounting functions that remain the responsibility of a single individual and/or are not subject to independent review and approval:

- Recording cash receipts in the general ledger and making the bank deposit
- Generating utility bills, maintaining the accounts receivable subledger, and processing routine cash receipting duties
- Initiating, evaluating, and approving investment transactions and maintaining the general ledger

City of Grandville

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

- Adjusting certain balances through manual journal entries
- Processing payroll, distributing payroll checks, and general ledger maintenance

We commend management for its efforts thus far in improving internal controls, and suggest that the City consider whether it would be cost beneficial to apply additional or revised controls to the remaining items noted above.

Fund Balance Policy

The City adopted the provisions of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011. This standard introduced new fund balance classifications in governmental funds, which are reflected in the City's financial statement audit. While not required, the City may wish to consider adopting a formal fund balance policy to address such matters as: minimum fund balance in the general fund (to aid in budget development), the flow of funds (which classifications of fund balance are deemed to be used first), and/or delegating the authority to "assign" fund balance to a committee, City administrator, or department head. If the City decides to proceed with adopting a fund balance policy, we would be happy to assist in this process by providing suggested language and reviewing initial drafts.

* * * * *



**The City
of Grandville**

CITY HALL

3195 Wilson Avenue
Grandville, MI 49418-1274
Phone 616.531.3030
Fax 616.530.4984

November 10, 2011

Rehmann Robson
2330 East Paris Ave. SE
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of the financial statements of the *City of Grandville* as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Grandville** and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 10, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

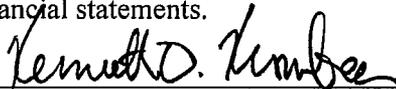
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

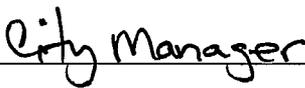
14. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*).
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*).
 - d. Restrictions, commitments, or assignments of fund equity that were not properly authorized and approved.
15. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
16. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
17. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.

24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

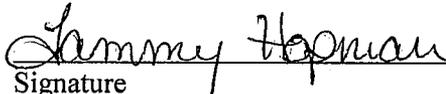
No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.



Signature



Title



Signature



Title