

City of Grandville,
Michigan



Year Ended
June 30, 2012

Financial
Statements

CITY OF GRANDVILLE, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

November 14, 2012

Honorable Mayor and
Members of the City Council
City of Grandville, Michigan
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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 previously 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, 2012, 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 14, 2012, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

These financial statements are the responsibility of the City of Grandville's management. We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2012. 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

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$60,031,668 (*net assets*).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,139,839, an increase of \$119,735 from the prior year.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,864,776 or 33% 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.

CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

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 funds balance sheet and in the governmental funds 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 nonmajor 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.

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.

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.

CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and schedules of funding progress and employer contributions for the City's pension and other postemployment benefits funds.

The combining statements referred to earlier in connection with nonmajor governmental funds and continuing disclosure information are presented immediately following the required supplementary information.

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 \$60,031,668 at the close of the most recent fiscal year.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,210,643	\$ 7,242,940	\$ 7,678,589	\$11,690,019	\$14,889,232	\$18,932,959
Capital assets, net	16,372,191	16,812,328	43,643,878	32,812,070	60,016,069	49,624,398
Total assets	23,582,834	24,055,268	51,322,467	44,502,089	74,905,301	68,557,357
Long-term liabilities	5,677,064	5,983,364	6,477,085	6,845,902	12,154,149	12,829,266
Other liabilities	576,906	464,304	2,142,578	3,517,813	2,719,484	3,982,117
Total liabilities	6,253,970	6,447,668	8,619,663	10,363,715	14,873,633	16,811,383
Net assets:						
Invested in capital assets, net of related debt	11,440,324	11,540,706	37,278,500	28,314,821	48,718,824	39,855,527
Restricted	1,663,589	1,724,410	532,954	534,249	2,196,543	2,258,659
Unrestricted	4,224,951	4,342,484	4,891,350	5,289,304	9,116,301	9,631,788
Total net assets	\$17,328,864	\$17,607,600	\$42,702,804	\$34,138,374	\$60,031,668	\$51,745,974

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, MICHIGAN

Management's Discussion and Analysis

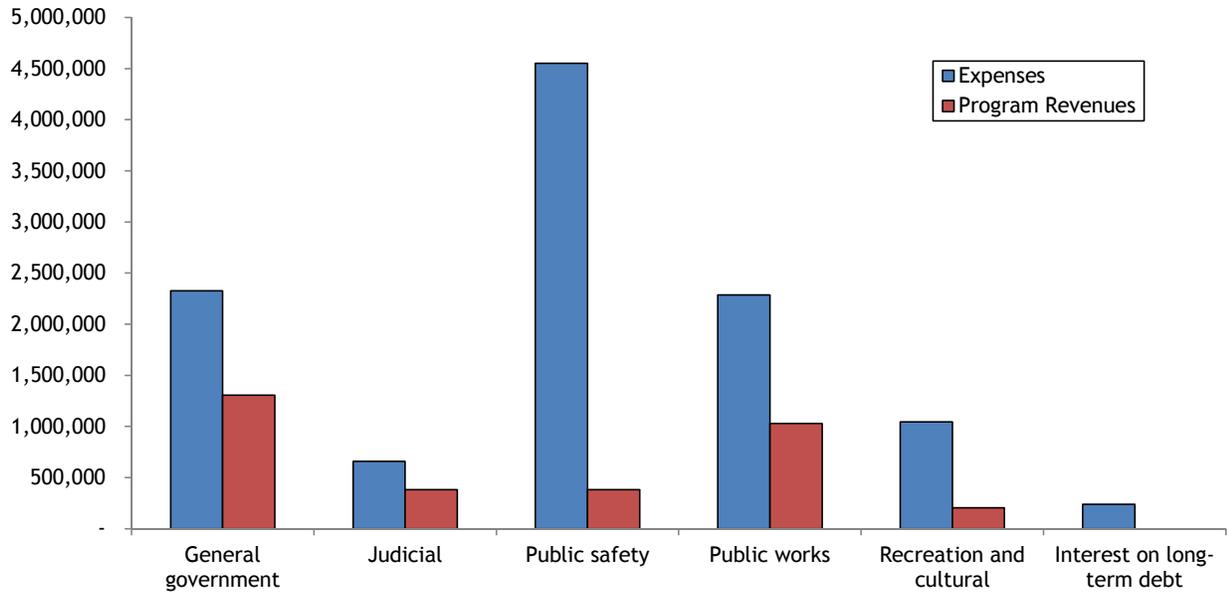
	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 2,189,402	\$ 2,123,503	\$ 6,538,711	\$ 6,182,994	\$ 8,728,113	\$ 8,306,497
Operating grants	1,113,758	1,103,613	26,036	62,039	1,139,794	1,165,652
Capital grants	43,080	204,774	9,068,421	11,238,235	9,111,501	11,443,009
General revenues:						
Property taxes	6,050,711	6,167,203	-	-	6,050,711	6,167,203
State shared revenue	1,136,377	1,080,343	-	-	1,136,377	1,080,343
Franchise fees	203,843	195,252	-	-	203,843	195,252
Insurance recoveries	-	66,208	-	-	-	66,208
Unrestricted investment earnings	50,705	62,737	-	-	50,705	62,737
Gain on sale of capital assets	-	261	-	-	-	261
Other revenue	16,119	-	-	-	16,119	-
Total revenues	10,803,995	11,003,894	15,633,168	17,483,268	26,437,163	28,487,162
Expenses:						
General government	2,327,765	2,252,214	-	-	2,327,765	2,252,214
Judicial	657,825	610,045	-	-	657,825	610,045
Public safety	4,553,187	4,550,733	-	-	4,553,187	4,550,733
Public works	2,287,770	2,254,287	-	-	2,287,770	2,254,287
Recreation and cultural	1,045,674	1,000,870	-	-	1,045,674	1,000,870
Interest on long-term debt	236,984	253,261	-	-	236,984	253,261
Sewer	-	-	4,717,984	4,730,170	4,717,984	4,730,170
Water	-	-	2,324,280	2,064,269	2,324,280	2,064,269
Total expenses	11,109,205	10,921,410	7,042,264	6,794,439	18,151,469	17,715,849
Change in net assets, before transfers	(305,210)	82,484	8,590,904	10,688,829	8,285,694	10,771,313
Transfers	26,474	27,271	(26,474)	(27,271)	-	-
Change in net assets	(278,736)	109,755	8,564,430	10,661,558	8,285,694	10,771,313
Net assets:						
Beginning of year	17,607,600	17,497,845	34,138,374	23,476,816	51,745,974	40,974,661
End of year	\$17,328,864	\$17,607,600	\$42,702,804	\$34,138,374	\$60,031,668	\$51,745,974

Governmental Activities. Governmental activities decreased the City's net assets by \$278,736. This is primarily due to depreciation expense on capital assets exceeding new capital assets purchased.

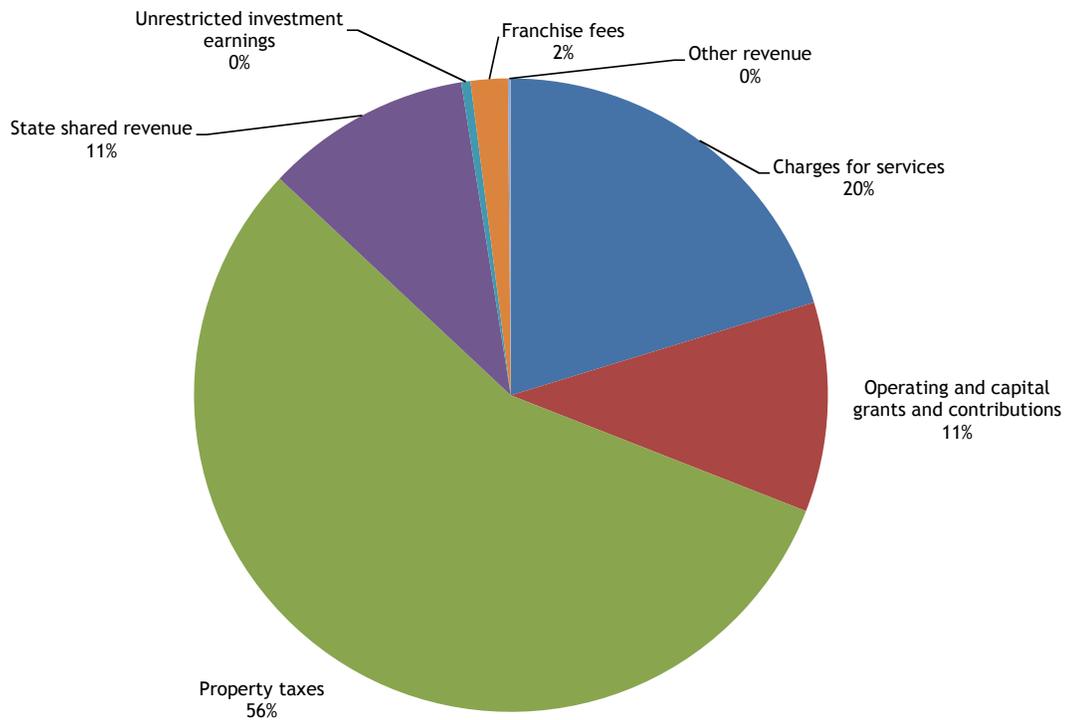
CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities



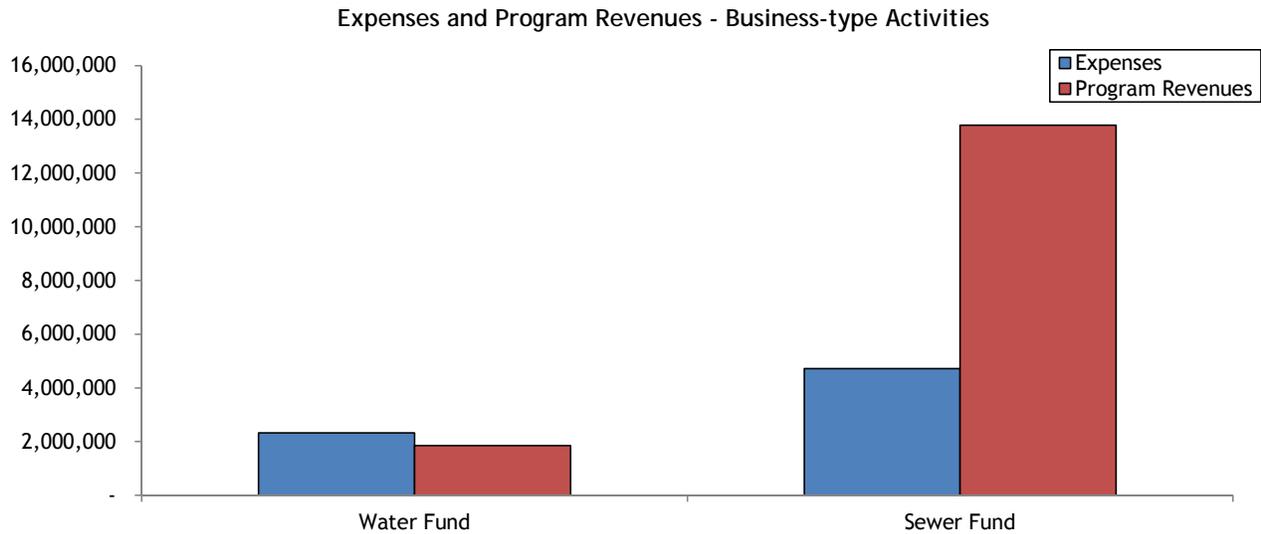
Revenues by Source - Governmental Activities



CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net assets by \$8,564,430. The key element of this increase was a capital contribution in the sewer fund of over \$9 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 are not a liability of the City of Grandville.



Financial Analysis of the County'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, *unassigned 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 \$5,139,839, an increase of \$119,735 compared with the prior year. This increase was primarily related to an insurance settlement for damage at the fire department building and a major streets project delayed until fiscal year 2013.

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 \$2,864,776 while total fund balance reached \$3,539,362. 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 33% of total general fund expenditures and transfers out, while total fund balance represents 41% of that same amount.

CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

The fund balance of the City of Grandville's general fund increased by \$184,520 during the current fiscal year. This increase was mainly related to increased revenue for cable franchise fees, permit revenue, and approximately \$130,000 for a lawsuit settlement.

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 \$286,286 and \$4,605,064, respectively. The total changes in net assets for these funds were a decrease of \$475,904 and an increase of \$9,040,334 respectively. The decrease in the Water Fund was due an increase in commodity costs, purchased at wholesale rates from the City of Wyoming. The increase in the Sewer Fund was related to the cleanwater plant expansion, funded entirely through capital contributions from Ottawa County.

General Fund Budgetary Highlights

- Variances between the original and final amended budgets were relatively minor.
- Licenses and permits revenue exceeded original budget by approximately \$305,000. This was primarily related to a rebound in the economy and increased demand for building permits due to a large commercial development.
- Expenditures in the public safety function were approximately \$112,000 under budget primarily due to reduced overtime, delayed budgeted separation payouts in the police department and fire building repairs delayed until fiscal year 2013.

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, 2012, amounted to \$60,016,069 (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

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,738,397	\$ 1,738,397	\$ 15,000	\$ 15,000	\$ 1,753,397	\$ 1,753,397
Construction in progress	10,596	53,227	25,091,064	13,728,445	25,101,660	13,781,672
Depreciable assets	14,623,198	15,020,704	18,537,814	19,068,625	33,161,012	34,089,329
Total capital assets, net	\$16,372,191	\$16,812,328	\$43,643,878	\$32,812,070	\$60,016,069	\$49,624,398

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

CITY OF GRANDVILLE, MICHIGAN

Management's Discussion and Analysis

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

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 5,000,000	\$ 5,350,000	\$ 6,440,000	\$ 6,835,000	\$11,440,000	\$12,185,000
Other obligations*	677,064	633,364	37,085	10,902	714,149	644,266
Total long-term debt	\$ 5,677,064	\$ 5,983,364	\$ 6,477,085	\$ 6,845,902	\$12,154,149	\$12,829,266

The City's total debt decreased by \$675,017.

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

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2012-13 fiscal year:

- Maintain the same millage rate as 2011-12 fiscal year of 9.154.
- Reduction of full time Fire Administrative position to part time and an additional full time Firefighter/EMT.
- Allocation of 1.155 mills of general millage to Major and Local Street Funds.
- Commodity rates for water were increased from \$1.99 to \$2.11 per 1,000 gallons.
- Water ready-to-serve charges were increased from \$8.76 to \$10.76 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.

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BASIC FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Pooled cash and investments	\$ 5,287,972	\$ 3,505,319	\$ 8,793,291	\$ 2,457,081
Restricted cash and investments	506,788	2,265,247	2,772,035	1,332,713
Receivables	646,914	1,724,719	2,371,633	113,689
Land held for sale	-	-	-	70,000
Net pension asset	689,034	-	689,034	-
Net other postemployment benefits asset	13,995	-	13,995	-
Deferred bond issuance costs, net	65,940	183,304	249,244	79,277
Capital assets not being depreciated	1,748,993	25,106,064	26,855,057	2,335,630
Capital assets being depreciated, net	14,623,198	18,537,814	33,161,012	220,812
Total assets	23,582,834	51,322,467	74,905,301	6,609,202
Liabilities				
Accounts payable and accrued liabilities	576,906	2,142,578	2,719,484	1,367,267
Long-term debt:				
Due in one year	746,183	467,774	1,213,957	55,000
Due in more than one year	4,930,881	6,009,311	10,940,192	1,730,000
Total liabilities	6,253,970	8,619,663	14,873,633	3,152,267
Net assets				
Invested in capital assets, net of related debt	11,440,324	37,278,500	48,718,824	771,442
Restricted for:				
Drug law enforcement	92,330	-	92,330	-
Drunk driving caseflow	58,711	-	58,711	-
Construction code enforcement	17,869	-	17,869	-
Public works	1,122,542	-	1,122,542	-
Debt service	372,137	532,954	905,091	145,775
Unrestricted	4,224,951	4,891,350	9,116,301	2,539,718
Total net assets	\$ 17,328,864	\$ 42,702,804	\$ 60,031,668	\$ 3,456,935

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2012

Function / Program	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 2,327,765	\$ 1,295,714	\$ 10,700	\$ -	\$ (1,021,351)
Judicial	657,825	327,333	53,642	-	(276,850)
Public safety	4,553,187	336,244	45,975	-	(4,170,968)
Public works	2,287,770	24,929	1,003,441	43,080	(1,216,320)
Recreation and cultural	1,045,674	205,182	-	-	(840,492)
Interest on long-term debt	236,984	-	-	-	(236,984)
Total governmental activities	11,109,205	2,189,402	1,113,758	43,080	(7,762,965)
Business-type activities:					
Sewer	4,717,984	4,689,079	25,818	9,068,421	9,065,334
Water	2,324,280	1,849,632	218	-	(474,430)
Total business-type activities	7,042,264	6,538,711	26,036	9,068,421	8,590,904
Total primary government	\$ 18,151,469	\$ 8,728,113	\$ 1,139,794	\$ 9,111,501	\$ 827,939
Component unit					
Downtown Development Authority	\$ 114,768	\$ 1,445	\$ -	\$ 257,142	\$ 143,819
Brownfield Redevelopment Authority	4,105	-	-	-	(4,105)
Total component unit	\$ 118,873	\$ 1,445	\$ -	\$ 257,142	\$ 139,714

continued...

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2012

Function / Program	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (7,762,965)	\$ 8,590,904	\$ 827,939	\$ 139,714
General revenue:				
Property taxes	6,050,711	-	6,050,711	319,607
State shared revenue	1,136,377	-	1,136,377	-
Franchise fees	203,843	-	203,843	-
Unrestricted investment earnings	50,705	-	50,705	16,844
Other revenue	16,119	-	16,119	3
Transfers	26,474	(26,474)	-	-
Total general revenue and transfers	7,484,229	(26,474)	7,457,755	336,454
Change in net assets	(278,736)	8,564,430	8,285,694	476,168
Net assets, beginning of year	17,607,600	34,138,374	51,745,974	2,980,767
Net assets, end of year	\$ 17,328,864	\$ 42,702,804	\$ 60,031,668	\$ 3,456,935

concluded

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

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CITY OF GRANDVILLE, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Pooled cash and investments	\$ 3,446,045	\$ 1,117,617	\$ 4,563,662
Restricted cash and investments	92,330	414,458	506,788
Accounts receivable	202,747	79	202,826
Special assessments receivable	-	67,286	67,286
Interest receivable	4,683	1,354	6,037
Due from other governments	211,697	158,154	369,851
Total assets	\$ 3,957,502	\$ 1,758,948	\$ 5,716,450
Liabilities			
Accounts payable	\$ 299,289	\$ 87,289	\$ 386,578
Accrued and other liabilities	118,851	3,896	122,747
Deferred revenue	-	67,286	67,286
Total liabilities	418,140	158,471	576,611
Fund balances (Note 11)			
Restricted	168,910	1,473,936	1,642,846
Committed	505,676	126,541	632,217
Unassigned	2,864,776	-	2,864,776
Total fund balances	3,539,362	1,600,477	5,139,839
Total liabilities and fund balances	\$ 3,957,502	\$ 1,758,948	\$ 5,716,450

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

CITY OF GRANDVILLE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds \$ 5,139,839

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	1,748,993
Capital assets being depreciated, net	13,740,466

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	689,034
Net other postemployment benefits asset	13,995
Deferred special assessments receivable	67,286

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	1,580,410
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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	65,940
Bonds and notes payable	(5,000,000)
Unamortized premium on bonds payable	(57,401)
Unamortized deferred loss on bond refunding	125,534
Accrued interest payable on long-term debt	(46,543)
Compensated absences	(738,689)

Net assets of governmental activities	<u>\$ 17,328,864</u>
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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, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,324,843	\$ 725,868	\$ 6,050,711
Licenses and permits	572,615	-	572,615
Intergovernmental	1,292,639	1,000,576	2,293,215
Fines and forfeitures	618,980	-	618,980
Charges for services	648,546	34,411	682,957
Interest income	33,929	11,525	45,454
Rental income	7,960	459,711	467,671
Other revenue	76,623	-	76,623
Total revenue	8,576,135	2,232,091	10,808,226
Expenditures			
Current:			
General government	2,711,027	-	2,711,027
Judicial	604,196	-	604,196
Public safety	4,032,355	-	4,032,355
Public works	287,762	1,716,424	2,004,186
Recreation and culture	921,275	-	921,275
Debt service:			
Principal	-	350,000	350,000
Interest	-	226,926	226,926
Total expenditures	8,556,615	2,293,350	10,849,965
Revenue over (under) expenditures	19,520	(61,259)	(41,739)
Other financing sources (uses)			
Transfers in	35,000	124,268	159,268
Transfers out	-	(127,794)	(127,794)
Insurance recoveries	130,000	-	130,000
Total other financing sources (uses)	165,000	(3,526)	161,474
Net change in fund balances	184,520	(64,785)	119,735
Fund balances, beginning of year	3,354,842	1,665,262	5,020,104
Fund balances, end of year	\$ 3,539,362	\$ 1,600,477	\$ 5,139,839

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

CITY OF GRANDVILLE, MICHIGAN

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balance - total governmental funds \$ 119,735

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	571,542
Depreciation expense	(928,625)

Special assessments and personal property taxes receivable are long-term in nature and are collectible over several years. However the current receipts are reflected as revenues on the fund statements.

Change in deferred special assessments receivable	(9,482)
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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 long-term debt	350,000
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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	5,259
Amortization of bond premium	8,630
Amortization of deferred loss on bond refunding	(18,875)
Amortization of deferred bond issuance costs	(5,072)
Change in the accrual for compensated absences	(33,962)
Change in the net pension asset	(28,209)
Change in the net other postemployment benefits asset	188

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	(309,865)
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Change in net assets of governmental activities	\$ (278,736)
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN

Statement of Revenue, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,413,286	\$ 5,413,286	\$ 5,324,843	\$ (88,443)
Licenses and permits	267,500	267,500	572,615	305,115
Intergovernmental	1,241,084	1,241,084	1,292,639	51,555
Fines and forfeitures	682,500	682,500	618,980	(63,520)
Charges for services	609,901	609,901	648,546	38,645
Interest income	22,250	22,250	33,929	11,679
Rental income	4,500	4,500	7,960	3,460
Other revenue	51,349	51,349	76,623	25,274
Total revenue	8,292,370	8,292,370	8,576,135	283,765
Expenditures				
Current:				
General government	2,694,742	2,822,842	2,711,027	(111,815)
Judicial	613,697	622,197	604,196	(18,001)
Public safety	4,109,269	4,144,269	4,032,355	(111,914)
Public works	332,366	332,366	287,762	(44,604)
Recreation and culture	1,052,519	1,060,519	921,275	(139,244)
Total expenditures	8,802,593	8,982,193	8,556,615	(425,578)
Revenue over (under) expenditures	(510,223)	(689,823)	19,520	709,343
Other financing sources				
Transfers in	50,000	50,000	35,000	(15,000)
Insurance recoveries	-	-	130,000	130,000
Total other financing sources	50,000	50,000	165,000	115,000
Net change in fund balance	(460,223)	(639,823)	184,520	824,343
Fund balance, beginning of year	3,354,842	3,354,842	3,354,842	-
Fund balance, end of year	<u>\$ 2,894,619</u>	<u>\$ 2,715,019</u>	<u>\$ 3,539,362</u>	<u>\$ 824,343</u>

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Assets				
Current assets:				
Pooled cash and investments	\$ 176	\$ 3,505,143	\$ 3,505,319	\$ 724,310
Restricted cash and investments	-	2,265,247	2,265,247	-
Accounts receivable	592,053	1,128,429	1,720,482	-
Interest receivable	-	4,237	4,237	914
Total current assets	592,229	6,903,056	7,495,285	725,224
Noncurrent assets:				
Deferred bond issuance costs	-	183,304	183,304	-
Capital assets not being depreciated	-	25,106,064	25,106,064	-
Capital assets being depreciated, net	8,892,383	9,645,431	18,537,814	882,732
Total noncurrent assets	8,892,383	34,934,799	43,827,182	882,732
Total assets	9,484,612	41,837,855	51,322,467	1,607,956
Liabilities				
Current liabilities:				
Accounts payable	275,122	1,689,866	1,964,988	19,980
Accrued liabilities	2,478	175,112	177,590	1,058
Current portion of compensated absences	17,057	66,741	83,798	6,508
Current portion of bonds payable	-	383,976	383,976	-
Total current liabilities	294,657	2,315,695	2,610,352	27,546
Noncurrent liabilities:				
Compensated absences, net of current portion	11,286	16,623	27,909	-
Bonds payable, net of current portion	-	5,981,402	5,981,402	-
Total noncurrent liabilities	11,286	5,998,025	6,009,311	-
Total liabilities	305,943	8,313,720	8,619,663	27,546
Net assets				
Invested in capital assets, net of related debt	8,892,383	28,386,117	37,278,500	882,732
Restricted for debt service	-	532,954	532,954	-
Unrestricted	286,286	4,605,064	4,891,350	697,678
Total net assets	\$ 9,178,669	\$ 33,524,135	\$ 42,702,804	\$ 1,580,410

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, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenue				
Charges for services	\$ 1,831,832	\$ 4,670,621	\$ 6,502,453	\$ 403,944
Interest and penalty charges	17,800	18,458	36,258	-
Total operating revenue	1,849,632	4,689,079	6,538,711	403,944
Operating expenses				
Cost of water produced/purchased	1,376,213	-	1,376,213	-
Cost of sewage treatment	-	1,317,087	1,317,087	-
Cost of labor	405,570	1,362,288	1,767,858	163,490
Administrative costs, supplies, and other	187,976	1,213,718	1,401,694	376,252
Depreciation	354,521	520,931	875,452	174,318
Total operating expenses	2,324,280	4,414,024	6,738,304	714,060
Operating income (loss)	(474,648)	275,055	(199,593)	(310,116)
Non-operating revenue (expenses)				
Interest income	218	25,818	26,036	5,251
Interest expense	-	(303,960)	(303,960)	-
Total non-operating revenue (expenses)	218	(278,142)	(277,924)	5,251
Net loss before transfers	(474,430)	(3,087)	(477,517)	(304,865)
Transfers				
Transfers in	3,526	-	3,526	-
Transfers out	(5,000)	(25,000)	(30,000)	(5,000)
Total transfers	(1,474)	(25,000)	(26,474)	(5,000)
Capital contributions	-	9,068,421	9,068,421	-
Change in net assets	(475,904)	9,040,334	8,564,430	(309,865)
Net assets, beginning of year	9,654,573	24,483,801	34,138,374	1,890,275
Net assets, end of year	\$ 9,178,669	\$ 33,524,135	\$ 42,702,804	\$ 1,580,410

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, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 1,707,948	\$ 4,768,805	\$ 6,476,753	\$ -
Payments to suppliers	(1,420,336)	(1,739,121)	(3,159,457)	(374,509)
Payments to employees	(401,576)	(1,252,296)	(1,653,872)	(163,443)
Internal activity - receipts from other funds	-	-	-	403,944
Net cash provided by (used in) operating activities	<u>(113,964)</u>	<u>1,777,388</u>	<u>1,663,424</u>	<u>(134,008)</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(326,891)	(11,380,369)	(11,707,260)	(91,264)
Contributions from Ottawa County	-	9,068,421	9,068,421	-
Principal paid on long-term debt	-	(395,000)	(395,000)	-
Interest paid on long-term debt	-	(261,273)	(261,273)	-
Net cash provided by (used in) capital and related financing activities	<u>(326,891)</u>	<u>(2,968,221)</u>	<u>(3,295,112)</u>	<u>(91,264)</u>
Cash flows from noncapital financing activities				
Transfers in	3,526	-	3,526	-
Transfers out	(5,000)	(25,000)	(30,000)	(5,000)
Net cash used in noncapital financing activities	<u>(1,474)</u>	<u>(25,000)</u>	<u>(26,474)</u>	<u>(5,000)</u>
Cash flows from investing activities				
Interest income received	218	25,818	26,036	5,251
Net change in cash and cash equivalents	<u>(442,111)</u>	<u>(1,190,015)</u>	<u>(1,632,126)</u>	<u>(225,021)</u>
Cash and investments, beginning of year	<u>442,287</u>	<u>6,960,405</u>	<u>7,402,692</u>	<u>949,331</u>
Cash and investments, end of year	<u>\$ 176</u>	<u>\$ 5,770,390</u>	<u>\$ 5,770,566</u>	<u>\$ 724,310</u>
Cash and investments are presented on the statement of net assets as follows				
Pooled cash and investments	\$ 176	\$ 3,505,143	\$ 3,505,319	\$ 724,310
Restricted cash and investments	-	2,265,247	2,265,247	-
	<u>\$ 176</u>	<u>\$ 5,770,390</u>	<u>\$ 5,770,566</u>	<u>\$ 724,310</u>

continued...

CITY OF GRANDVILLE, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Operating income (loss)	\$ (474,648)	\$ 275,055	\$ (199,593)	\$ (310,116)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	354,521	520,931	875,452	174,318
Changes in assets/liabilities:				
Accounts receivable	(142,861)	55,171	(87,690)	921
Interest receivable	1,177	24,555	25,732	1,874
Due from other governments	-	2,424,164	2,424,164	-
Accounts payable	143,853	(1,632,480)	(1,488,627)	(1,052)
Accrued liabilities	1,238	112,154	113,392	554
Compensated absences	2,756	(2,162)	594	(507)
Net cash provided by (used in) operating activities	\$ (113,964)	\$ 1,777,388	\$ 1,663,424	\$ (134,008)

concluded

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, 2012

Assets

Cash and pooled investments	\$ 128,577
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Liabilities

Due to Parks and Recreation Board	\$ 62,662
Due to 59th District Court	54,812
Due to property developers	1,020
Due to other governments	10,083

Total liabilities

	\$ 128,577
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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, 2012

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Assets			
Pooled cash and investments	\$ 2,427,130	\$ 29,951	\$ 2,457,081
Restricted cash and investments	1,332,713	-	1,332,713
Receivables	113,689	-	113,689
Land held for sale	70,000	-	70,000
Deferred bond issuance costs, net	79,277	-	79,277
Capital assets not being depreciated	2,335,630	-	2,335,630
Capital assets being depreciated, net	220,812	-	220,812
Total assets	6,579,251	29,951	6,609,202
Liabilities			
Accounts payable and accrued liabilities	1,366,456	811	1,367,267
Long-term debt:			
Due in one year	55,000	-	55,000
Due in more than one year	1,730,000	-	1,730,000
Total liabilities	3,151,456	811	3,152,267
Net assets			
Invested in capital assets, net of related debt	771,442	-	771,442
Restricted for debt service	145,775	-	145,775
Unrestricted	2,510,578	29,140	2,539,718
Total net assets	\$ 3,427,795	\$ 29,140	\$ 3,456,935

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, 2012

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Downtown Development Authority	\$ 114,768	\$ -	\$ 114,768
Brownfield Redevelopment Authority	-	4,105	4,105
Total expenses	114,768	4,105	118,873
Program revenues			
Charges for services	1,445	-	1,445
Capital grants and contributions	257,142	-	257,142
Total program revenues	258,587	-	258,587
Net revenue (expense)	143,819	(4,105)	139,714
General revenues			
Property taxes	306,327	13,280	319,607
Unrestricted investment earnings	16,844	-	16,844
Other revenue	3	-	3
Total general revenues	323,174	13,280	336,454
Net change in net assets	466,993	9,175	476,168
Net assets, beginning of year	2,960,802	19,965	2,980,767
Net assets, end of year	\$ 3,427,795	\$ 29,140	\$ 3,456,935

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

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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 financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

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* used to account for and report all financial resources not accounted for and reported in another fund.

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. Financing is provided by user charges and contributions by other funds, municipalities and customers.

The *sewer fund* is used to account for the operation, maintenance and capital improvement of the wastewater system and retirement of related debt. Financing is provided by user charges and contributions by other funds, municipalities and customers.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue source that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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.

Restricted net assets are assets that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. 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.

Budgets and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. 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. Prior to the first day of the following fiscal year, 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, 2012. 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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Assets, Liabilities and Equity

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.

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- 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.
- Bankers' acceptances of United States banks.
- 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.
- 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.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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 and debt service funds 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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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.

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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:

	Years
Road and sidewalks	10-50
Water and sewer distribution systems	10-100
Land improvements	15-20
Buildings 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.

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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.

The City has adopted a policy stating that the City, at a minimum, should maintain an unassigned fund balance in the general fund equal to 15% of general fund expenditures. At June 30, 2012, unassigned fund balance of the general fund was equal to 34% of general fund expenditures and transfers out.

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.

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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, 2012, 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 surplus generated since January 1, 2000, is as follows:

Cumulative shortfall at June 30, 2011	\$ (2,547)
Building permit revenue	297,771
Related expenses:	
Direct costs	270,404
Estimated indirect costs	<u>6,951</u>
Cumulative surplus at June 30, 2012	<u><u>\$ 17,869</u></u>

2. EXCESS OF EXPENDITURES OVER BUDGET

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, 2012, 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:			
Building inspection	\$ 660,000	\$ 705,082	\$ 45,082
Public works:			
Sanitation and other	37,675	38,564	889
Recreation and culture:			
Library	125,678	126,999	1,321

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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	\$ 8,793,291	\$ 2,457,081	\$ 128,577	\$ 11,378,949
Restricted cash and investments	2,772,035	1,332,713	-	4,104,748
Total	\$ 11,565,326	\$ 3,789,794	\$ 128,577	\$ 15,483,697

These deposits are in 15 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, 2012:

Checking and savings accounts	\$ 6,935,704
Certificates of deposit:	
Due within one year	6,681,000
Due in one to five years	757,107
Investments	1,109,584
Cash on hand	302
Total cash and investments	\$ 15,483,697

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, \$10,751,375 of the City's bank balance of \$14,794,857 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, 2012:

Government mutual funds	\$ 173,520
Kent County investment pool	936,064
Total	\$ 1,109,584

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Credit Risk. Statutes and various bond indentures authorized the City to invest in obligations of the U.S. Treasury, governmental agencies and instrumentalities, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services, bankers' acceptances of U.S. banks, U.S. government or federal agency obligation repurchase agreements, obligations of the State of Michigan or any of its political subdivisions rated as investment grade by not less than one standard rating service, and mutual funds composed of the types of investment vehicles named previously. 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 & Poor's AAAm	\$ 173,520
Unrated	<u>936,064</u>
Total	<u>\$ 1,109,584</u>

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. 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. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. 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.

4. RECEIVABLES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 202,826	\$ 1,720,482	\$ -
Special assessments	67,286	-	-
Due from other governments	369,851	-	110,758
Interest	6,951	4,237	2,931
Total	<u>\$ 646,914</u>	<u>\$ 1,724,719</u>	<u>\$ 113,689</u>

Of the amounts reported above, \$63,220 of special assessments receivable reported in nonmajor governmental funds are not expected to be collected within one year.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 319,269	\$ 770,310	\$ 513,626
Retainage	-	1,194,678	845,250
Accrued liabilities	211,094	136,317	220
Accrued interest on long-term debt	46,543	41,273	8,171
Total	\$ 576,906	\$ 2,142,578	\$ 1,367,267

5. INTERFUND TRANSACTIONS

For the year ended June 30, 2012, interfund transfers consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	
Nonmajor governmental funds	\$ -	\$ 124,268	\$ 3,526	\$ 127,794
Water enterprise fund	5,000	-	-	5,000
Sewer enterprise fund	25,000	-	-	25,000
Internal service fund	5,000	-	-	5,000
	\$ 35,000	\$ 124,268	\$ 3,526	\$ 162,794

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,738,397	\$ -	\$ -	\$ -	\$ 1,738,397
Construction in progress	53,227	10,596	-	(53,227)	10,596
	<u>1,791,624</u>	<u>10,596</u>	<u>-</u>	<u>(53,227)</u>	<u>1,748,993</u>
Capital assets, being depreciated:					
Infrastructure	78,688,545	515,066	-	-	79,203,611
Land improvements	1,513,432	28,370	-	-	1,541,802
Buildings and improvements	8,919,241	-	-	-	8,919,241
Office furnishings and equipment	4,929,541	108,774	(33,382)	53,227	5,058,160
	<u>94,050,759</u>	<u>652,210</u>	<u>(33,382)</u>	<u>53,227</u>	<u>94,722,814</u>
Less accumulated depreciation for:					
Infrastructure	(70,884,142)	(600,570)	-	-	(71,484,712)
Land improvements	(1,058,725)	(31,941)	-	-	(1,090,666)
Buildings and improvements	(3,354,019)	(256,022)	-	-	(3,610,041)
Office furnishings and equipment	(3,733,169)	(214,410)	33,382	-	(3,914,197)
	<u>(79,030,055)</u>	<u>(1,102,943)</u>	<u>33,382</u>	<u>-</u>	<u>(80,099,616)</u>
Total capital assets being depreciated, net	<u>15,020,704</u>	<u>(450,733)</u>	<u>-</u>	<u>53,227</u>	<u>14,623,198</u>
Governmental activities capital assets, net	<u>\$ 16,812,328</u>	<u>\$ (440,137)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,372,191</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Construction in progress	13,728,445	11,380,369	-	(17,750)	25,091,064
	<u>13,743,445</u>	<u>11,380,369</u>	<u>-</u>	<u>(17,750)</u>	<u>25,106,064</u>
Capital assets, being depreciated:					
Land improvements	31,676	-	-	-	31,676
Water and sewer distribution systems	19,359,383	326,891	-	17,750	19,704,024
Intangible assets	4,500,000	-	-	-	4,500,000
Buildings and building improvements	7,223,838	-	-	-	7,223,838
Other tools and equipment	3,161,912	-	-	-	3,161,912
	<u>34,276,809</u>	<u>326,891</u>	<u>-</u>	<u>17,750</u>	<u>34,621,450</u>
Less accumulated depreciation for:					
Land improvements	(6,335)	(1,584)	-	-	(7,919)
Water and sewer distribution systems	(7,956,983)	(466,765)	-	-	(8,423,748)
Intangible assets	(1,800,000)	(112,500)	-	-	(1,912,500)
Buildings and building improvements	(2,881,702)	(146,513)	-	-	(3,028,215)
Other tools and equipment	(2,563,164)	(148,090)	-	-	(2,711,254)
	<u>(15,208,184)</u>	<u>(875,452)</u>	<u>-</u>	<u>-</u>	<u>(16,083,636)</u>
Total capital assets being depreciated, net	<u>19,068,625</u>	<u>(548,561)</u>	<u>-</u>	<u>17,750</u>	<u>18,537,814</u>
Business-type activities capital assets, net	<u>\$ 32,812,070</u>	<u>\$ 10,831,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,643,878</u>

Construction in progress reported in business-type activities as of June 30, 2012 related to engineering fees for a future cleanwater plant renovation project. The amount of commitments outstanding at June 30, 2012 for this project was \$729,517.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Capital assets activity for the Downtown Development Authority component unit was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Component Unit - Downtown Development Authority					
Capital assets, not being depreciated:					
Land	\$ 264,567	\$ -	\$ -	\$ -	\$ 264,567
Construction in progress	-	2,071,063	-	-	2,071,063
	<u>264,567</u>	<u>2,071,063</u>	<u>-</u>	<u>-</u>	<u>2,335,630</u>
Capital assets, being depreciated:					
Land improvements	616,240	-	-	-	616,240
Less accumulated depreciation for:					
Land improvements	(379,032)	(16,396)	-	-	(395,428)
Total capital assets being depreciated, net					
	<u>237,208</u>	<u>(16,396)</u>	<u>-</u>	<u>-</u>	<u>220,812</u>
Net Downtown Development Authority capital assets					
	<u>\$ 501,775</u>	<u>\$ 2,054,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,556,442</u>

Construction in progress reported in the Downtown Development Authority component unit as of June 30, 2012 relates to the Streetscape project funded, in part, by a federal grant passed through the Michigan Department of Transportation. The amount of commitments outstanding at June 30, 2012 for this project was \$772,270.

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

Governmental activities	
General government	\$ 29,026
Judicial	43,042
Public safety	103,766
Public works	619,528
Recreation and culture	133,263
Depreciation charged to internal service fund	<u>174,318</u>
Total depreciation expense - governmental activities	<u>\$ 1,102,943</u>
Business-type activities	
Water	\$ 354,521
Sewer	<u>520,931</u>
Total depreciation expense - business-type activities	<u>\$ 875,452</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

7. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
2007 Capital Improvement Bonds; payable in annual installments of \$35,000 to \$110,000 through 2016 with interest payable annually at 4.399%.	\$ 505,000	\$ -	\$ 95,000	\$ 410,000	\$ 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% to 5.00%.	4,845,000	-	255,000	4,590,000	265,000
Total installment debt	5,350,000	-	350,000	5,000,000	360,000
Deferred loss on refunding	(144,409)	-	(18,875)	(125,534)	(17,675)
Unamortized discount	66,031	-	8,630	57,401	8,082
Compensated absences	711,742	431,637	398,182	745,197	395,776
Total governmental activities	<u>\$ 5,983,364</u>	<u>\$ 431,637</u>	<u>\$ 737,937</u>	<u>\$ 5,677,064</u>	<u>\$ 746,183</u>
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%.	\$ 2,125,000	\$ -	\$ 395,000	\$ 1,730,000	\$ 405,000
2010 Sewage System Revenue Bonds; payable in semi-annual installment 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	-
Total installment debt	6,835,000	-	395,000	6,440,000	405,000

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
(Concluded)					
Deferred loss on refunding	\$ (95,665)	\$ -	\$ (31,084)	\$ (64,581)	\$ (25,306)
Unamortized bond premiums	20,081	-	6,525	13,556	5,312
Unamortized bond discounts	(24,627)	-	(1,030)	(23,597)	(1,030)
Compensated absences	111,113	84,392	83,798	111,707	83,798
Total business-type activities	\$ 6,845,902	\$ 84,392	\$ 453,209	\$ 6,477,085	\$ 467,774
Component unit - Downtown Development Authority					
2012 Tax Increment Revenue Bonds; payable in annual installments of \$55,000 to \$145,000 with interest payable semi-annually at 4.95% to 5.95%.					
	\$ -	\$ 1,785,000	\$ -	\$ 1,785,000	\$ 55,000

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	360,000	71,838	180,000	177,248
2018-2022	1,825,000	248,990	970,000	802,900
2023-2027	1,290,000	55,256	1,145,000	627,331
2028-2032	-	-	1,385,000	387,713
2033-2035	-	-	980,000	84,363
	\$ 5,000,000	\$ 778,096	\$ 6,440,000	\$ 2,969,333

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Year Ended June 30,	Component Unit	
	Principal	Interest
2013	\$ 55,000	\$ 98,058
2014	55,000	95,336
2015	60,000	92,612
2016	60,000	89,642
2017	65,000	86,672
2018-2022	375,000	381,636
2023-2027	475,000	273,414
2028-2032	640,000	118,704
	<u>\$ 1,785,000</u>	<u>\$ 1,236,074</u>

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

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, 2012, the City's annual pension cost for MERS was \$873,117, however actual contributions equaled \$844,908, reducing the City's net pension asset. The required contribution was determined as part of the December 31, 2009 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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Three-Year Trend Information			
Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Asset
2010	\$ 671,076	96%	\$ 746,607
2011	733,114	100%	717,243
2012	873,117	97%	689,034

The net pension asset is calculated as follows:

Annual required contribution	\$ 844,908
Interest on net pension asset	(57,379)
Adjustment to annual required contribution	85,588
Net pension cost	<u>873,117</u>
Contributions made	<u>(844,908)</u>
Decrease in net pension asset	(28,209)
Net pension asset, beginning of the year	<u>717,243</u>
 Net pension asset, end of year	 <u><u>\$ 689,034</u></u>

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 10 percent of non-union (9 percent through December 31, 2011), police sergeant, police rank and file, public works, 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 \$340,620 and \$168,567, respectively.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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, 2012, the City paid postemployment healthcare premiums of \$151,678 and made a deposit of \$105,000 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.

Annual required contribution	\$ 256,678
Interest on net OPEB obligation	(759)
Adjustment to annual required contribution	1,435
Net OPEB cost (expense)	<u>257,354</u>
Contributions made	<u>(257,542)</u>
Increase in net OPEB obligation	188
Net OPEB obligation, beginning of year	<u>13,807</u>
Net OPEB obligation, end of year	<u><u>\$ 13,995</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2010	\$ 281,547	103%	\$ 14,440
2011	256,235	102%	13,807
2012	257,354	100%	13,995

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.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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.

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, 2012, \$2,698,425 was held in trust for employees.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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 Grandville implemented last 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. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total
Restricted for:			
Major and local streets	\$ -	\$ 1,059,478	\$ 1,059,478
Repayment of special assessment debt*	-	414,458	414,458
Drunk driving caseflow	58,711	-	58,711
Drug law enforcement	92,330	-	92,330
Construction code enforcement	17,869	-	17,869
Total restricted	<u>168,910</u>	<u>1,473,936</u>	<u>1,624,977</u>
Committed for:			
Retiree healthcare (OPEB)	32,121	-	32,121
Cemetery perpetual care	473,555	-	473,555
Storm sewer maintenance	-	126,541	126,541
	<u>505,676</u>	<u>126,541</u>	<u>632,217</u>
Unassigned	<u>2,864,776</u>	-	<u>2,864,776</u>
Total fund balances, governmental funds	<u>\$ 3,539,362</u>	<u>\$ 1,600,477</u>	<u>\$ 5,121,970</u>

*The City received payment in full on a multi-year special assessment, levied to cover debt service on special assessment debt. Under the terms of the debt agreement, the City is not permitted to repay the funds in advance. As such, amounts are being held by the City until due based on the original debt amortization schedule.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

12. 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, 2012, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 1,748,993	\$ 25,106,064	\$ 2,335,630
Capital assets being depreciated, net	14,623,198	18,537,814	220,812
	<u>16,372,191</u>	<u>43,643,878</u>	<u>2,556,442</u>
Related debt:			
Total bonds and notes payable	5,000,000	6,440,000	1,785,000
Net bond premium/discount	57,401	(10,041)	-
Deferred loss on advance refunding	(125,534)	(64,581)	-
	<u>4,931,867</u>	<u>6,365,378</u>	<u>1,785,000</u>
Invested in capital assets, net of related debt	<u>\$ 11,440,324</u>	<u>\$ 37,278,500</u>	<u>\$ 771,442</u>

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 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
06/30/2007	\$ 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
06/30/2012	844,908	97%	689,034

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%	(2)	(2)
06/30/2010	460,164	1,908,407	1,448,243	24.1%	(2)	(2)

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB (Obligation) Asset
06/30/2010	\$ 281,455	102%	\$ 14,440
06/30/2011	255,602	100%	13,807
06/30/2012	256,678	100%	13,995

(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) Information not available

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

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GENERAL FUND

CITY OF GRANDVILLE, MICHIGAN

Detailed Schedule of Revenue, Expenditures and Change in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,413,286	\$ 5,413,286	\$ 5,324,843	\$ (88,443)
Licenses and permits	267,500	267,500	572,615	305,115
Intergovernmental	1,241,084	1,241,084	1,292,639	51,555
Fines and forfeitures	682,500	682,500	618,980	(63,520)
Charges for services	609,901	609,901	648,546	38,645
Interest income	22,250	22,250	33,929	11,679
Rental income	4,500	4,500	7,960	3,460
Other revenue	51,349	51,349	76,623	25,274
Total revenue	8,292,370	8,292,370	8,576,135	283,765
Expenditures				
Current:				
General government:				
Legislative	40,632	40,632	36,683	(3,949)
Assessor	195,505	226,005	211,584	(14,421)
Attorney	340,000	335,500	325,382	(10,118)
Clerk	165,076	157,576	154,654	(2,922)
Treasurer	176,058	176,058	165,983	(10,075)
Executive	222,874	228,974	221,495	(7,479)
Probation	403,571	412,071	396,793	(15,278)
Court	40,827	40,827	38,061	(2,766)
Building inspection	545,000	660,000	705,082	45,082
General administration	565,199	545,199	455,310	(89,889)
Total general government	2,694,742	2,822,842	2,711,027	(111,815)
Judicial	613,697	622,197	604,196	(18,001)
Public safety:				
Narcotics enforcement	8,540	8,540	8,334	(206)
Police	3,187,151	3,222,151	3,179,155	(42,996)
Fire	913,578	913,578	844,866	(68,712)
Total public safety	4,109,269	4,144,269	4,032,355	(111,914)

continued...

CITY OF GRANDVILLE, MICHIGAN

Detailed Schedule of Revenue, Expenditures and Change in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Expenditures (concluded)				
Current (concluded):				
Public works:				
Sidewalk maintenance	\$ 18,214	\$ 18,214	\$ 9,543	\$ (8,671)
Parking lot maintenance	35,777	35,777	14,556	(21,221)
Highways, streets, and bridges	240,700	240,700	225,099	(15,601)
Sanitation and other	37,675	37,675	38,564	889
Total public works	<u>332,366</u>	<u>332,366</u>	<u>287,762</u>	<u>(44,604)</u>
Recreation and culture:				
Cemetery	224,648	232,648	204,166	(28,482)
Special projects	117,300	117,300	106,930	(10,370)
Planning and zoning	34,920	34,920	29,128	(5,792)
Parks and recreation	413,805	413,805	337,321	(76,484)
Library	125,678	125,678	126,999	1,321
Other	136,168	136,168	116,731	(19,437)
Total recreation and culture	<u>1,052,519</u>	<u>1,060,519</u>	<u>921,275</u>	<u>(139,244)</u>
Total expenditures	<u>8,802,593</u>	<u>8,982,193</u>	<u>8,556,615</u>	<u>(425,578)</u>
Revenue over (under) expenditures	<u>(510,223)</u>	<u>(689,823)</u>	<u>19,520</u>	<u>709,343</u>
Other financing sources				
Transfers in	50,000	50,000	35,000	(15,000)
Insurance recoveries	-	-	130,000	130,000
Total other financing sources	<u>50,000</u>	<u>50,000</u>	<u>165,000</u>	<u>115,000</u>
Net change in fund balances	<u>(460,223)</u>	<u>(639,823)</u>	<u>184,520</u>	<u>824,343</u>
Fund balances, beginning of year	<u>3,354,842</u>	<u>3,354,842</u>	<u>3,354,842</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,894,619</u>	<u>\$ 2,715,019</u>	<u>\$ 3,539,362</u>	<u>\$ 824,343</u>

concluded

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

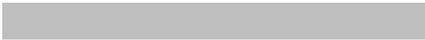
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NONMAJOR GOVERNMENTAL FUNDS

CITY OF GRANDVILLE, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

	Special Revenue			
	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Assets				
Pooled cash and investments	\$ 791,128	\$ 199,925	\$ -	\$ 126,564
Restricted cash and investments	410,236	-	-	-
Accounts receivable	-	79	-	-
Special assessments receivable	-	-	67,286	-
Interest receivable	958	243	-	153
Due from other governments	115,782	42,372	-	-
Total assets	\$ 1,318,104	\$ 242,619	\$ 67,286	\$ 126,717
Liabilities				
Accounts payable	\$ 55,173	\$ 32,006	\$ -	\$ 110
Accrued and other liabilities	1,967	1,863	-	66
Deferred revenue	-	-	67,286	-
Total liabilities	57,140	33,869	67,286	176
Fund balances				
Restricted	1,260,964	208,750	-	-
Committed	-	-	-	126,541
Total fund balances	1,260,964	208,750	-	126,541
Total liabilities and fund balances	\$ 1,318,104	\$ 242,619	\$ 67,286	\$ 126,717



Debt Service	
Building Authority	Totals
\$ -	\$ 1,117,617
4,222	414,458
-	79
-	67,286
-	1,354
-	158,154
<hr/>	
\$ 4,222	\$ 1,758,948
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\$ -	\$ 87,289
-	3,896
-	67,286
<hr/>	
-	158,471
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4,222	1,473,936
-	126,541
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4,222	1,600,477
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\$ 4,222	\$ 1,758,948
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CITY OF GRANDVILLE, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

June 30, 2012

	Special Revenue			
	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Revenue				
Property taxes	\$ 362,934	\$ 362,934	\$ -	\$ -
Intergovernmental	743,356	257,220	-	-
Charges for services	-	-	9,481	24,930
Interest income	7,008	2,394	1,092	839
Rental income	-	-	-	-
Total revenue	1,113,298	622,548	10,573	25,769
Expenditures				
Current:				
Public works	853,891	816,281	-	46,252
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	853,891	816,281	-	46,252
Revenue over (under) expenditures	259,407	(193,733)	10,573	(20,483)
Other financing sources (uses)				
Transfers in	7,053	-	-	-
Transfers out	(117,215)	-	(10,579)	-
Total other financing sources (uses)	(110,162)	-	(10,579)	-
Net change in fund balances	149,245	(193,733)	(6)	(20,483)
Fund balances, beginning of year	1,111,719	402,483	6	147,024
Fund balances, end of year	\$ 1,260,964	\$ 208,750	\$ -	\$ 126,541



Debt Service	
Building Authority	Totals
\$ -	\$ 725,868
-	1,000,576
-	34,411
192	11,525
<u>459,711</u>	<u>459,711</u>
<u>459,903</u>	<u>2,232,091</u>
-	1,716,424
350,000	350,000
<u>226,926</u>	<u>226,926</u>
<u>576,926</u>	<u>2,293,350</u>
<u>(117,023)</u>	<u>(61,259)</u>
117,215	124,268
<u>-</u>	<u>(127,794)</u>
<u>117,215</u>	<u>(3,526)</u>
192	(64,785)
<u>4,030</u>	<u>1,665,262</u>
<u>\$ 4,222</u>	<u>\$ 1,600,477</u>

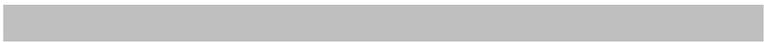
CITY OF GRANDVILLE, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balance

Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2012

	Major Streets			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 366,643	\$ 366,643	\$ 362,934	\$ (3,709)
Intergovernmental	697,633	697,633	743,356	45,723
Charges for services	-	-	-	-
Interest income	3,000	3,000	7,008	4,008
Total revenue	1,067,276	1,067,276	1,113,298	46,022
Expenditures				
Current:				
Public works	1,201,647	1,266,647	853,891	(412,756)
Revenue over (under) expenditures	(134,371)	(199,371)	259,407	458,778
Other financing sources (uses)				
Transfers in	122,435	122,435	7,053	(115,382)
Transfers out	(117,215)	(117,215)	(117,215)	-
Total other financing sources (uses)	5,220	5,220	(110,162)	(115,382)
Net change in fund balances	(129,151)	(194,151)	149,245	343,396
Fund balances, beginning of year	1,111,719	1,111,719	1,111,719	-
Fund balances, end of year	\$ 982,568	\$ 917,568	\$ 1,260,964	\$ 343,396



Local Streets			
Original Budget	Final Budget	Actual	Variance With Final Budget
\$ 366,643	\$ 366,643	\$ 362,934	\$ (3,709)
248,772	248,772	257,220	8,448
-	-	-	-
2,000	2,000	2,394	394
<hr/>	<hr/>	<hr/>	<hr/>
617,415	617,415	622,548	5,133
<hr/>	<hr/>	<hr/>	<hr/>
667,903	876,903	816,281	(60,622)
<hr/>	<hr/>	<hr/>	<hr/>
(50,488)	(259,488)	(193,733)	65,755
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-	-	-	-
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-	-	-	-
<hr/>	<hr/>	<hr/>	<hr/>
(50,488)	(259,488)	(193,733)	65,755
<hr/>	<hr/>	<hr/>	<hr/>
402,483	402,483	402,483	-
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\$ 351,995	\$ 142,995	\$ 208,750	\$ 65,755

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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, 2012

	Revolving			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	6,773	9,773	9,481	(292)
Interest income	1,057	1,057	1,092	35
Total revenue	7,830	10,830	10,573	(257)
Expenditures				
Current:				
Public works	-	-	-	-
Revenue over (under) expenditures	7,830	10,830	10,573	(257)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(7,830)	(10,830)	(10,579)	251
Total other financing sources (uses)	(7,830)	(10,830)	(10,579)	251
Net change in fund balances	-	-	(6)	(6)
Fund balances, beginning of year	6	6	6	-
Fund balances, end of year	\$ 6	\$ 6	\$ -	\$ (6)



Storm Sewer Trunkage			
Original Budget	Final Budget	Actual	Variance With Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
1,200	1,200	24,930	23,730
1,500	1,500	839	(661)
<u>2,700</u>	<u>2,700</u>	<u>25,769</u>	<u>23,069</u>
<u>55,026</u>	<u>65,026</u>	<u>46,252</u>	<u>(18,774)</u>
<u>(52,326)</u>	<u>(62,326)</u>	<u>(20,483)</u>	<u>41,843</u>
-	-	-	-
-	-	-	-
(52,326)	(62,326)	(20,483)	41,843
147,024	147,024	147,024	-
<u>\$ 94,698</u>	<u>\$ 84,698</u>	<u>\$ 126,541</u>	<u>\$ 41,843</u>

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AGENCY FUNDS

CITY OF GRANDVILLE, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

	Trust and Agency	County and School Tax	Totals
Assets			
Cash and cash equivalents	\$ 118,494	\$ 10,083	\$ 128,577
Liabilities			
Due to Parks and Recreation Board	\$ 62,662	\$ -	\$ 62,662
Due to 59th District Court	54,812	-	54,812
Due to property developers	1,020	-	1,020
Due to other governments	-	10,083	10,083
Total liabilities	\$ 118,494	\$ 10,083	\$ 128,577

COMPONENT UNITS

CITY OF GRANDVILLE, MICHIGAN

Balance Sheet

Downtown Development Authority - Governmental Fund
June 30, 2012

Assets

Pooled cash and investments	\$ 2,427,130
Restricted cash and investments	1,332,713
Due from other governments	110,758
Interest receivable	2,931
Land held for sale	70,000

Total assets \$ 3,943,532

Liabilities

Accounts payable	\$ 1,358,065
Accrued liabilities	220

Total liabilities 1,358,285

Fund balance

Nonspendable	70,000
Restricted for debt service	153,946
Unassigned	2,361,301

Total fund balance 2,585,247

Total liabilities and fund balance \$ 3,943,532

CITY OF GRANDVILLE, MICHIGAN

Reconciliation

Fund Balance for the Governmental Fund
to Net Assets of Governmental Activities
Downtown Development Authority
June 30, 2012

Fund balances - total governmental funds	\$ 2,585,247
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.</p>	
Capital assets not being depreciated	2,335,630
Capital assets being depreciated, net	220,812
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	
Bonds payable	(1,785,000)
Unamortized bond issuance costs	79,277
Interest payable on long-term debt	(8,171)
Net assets of governmental activities	<u>\$ 3,427,795</u>

CITY OF GRANDVILLE, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balance

Downtown Development Authority - Governmental Fund

For the Year Ended June 30, 2012

Revenue	
Taxes	\$ 306,327
Intergovernmental revenue	257,142
Charges for services	1,445
Interest	16,844
	<hr/>
Total revenue	581,761
	<hr/>
Expenditures	
Current:	
Other expenditures	58,697
Debt service:	
Interest	24,242
Bond issuance costs	80,936
Capital outlay	2,076,666
	<hr/>
Total expenditures	2,240,541
	<hr/>
Revenue over (under) expenditures	(1,658,780)
Other financing sources	
Issuance of long-term debt	1,785,000
	<hr/>
Net change in fund balance	126,220
Fund balance, beginning of year	2,459,027
	<hr/>
Fund balance, end of year	\$ 2,585,247
	<hr/> <hr/>

CITY OF GRANDVILLE, MICHIGAN

Reconciliation

Net Change in Fund Balance of the Governmental Fund
to Change in Net Assets of Governmental Activities
Downtown Development Authority
For the Year Ended June 30, 2012

Net changes in fund balances - total governmental funds	\$ 126,220
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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	2,071,063
Depreciation expense	(16,396)

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.

Issuance of long-term debt	(1,785,000)
Bond issuance costs	80,936

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.

Amortization of deferred bond issuance costs	(1,659)
Change in accrued interest payable on long-term debt	(8,171)

Change in net assets of governmental activities	<u>\$ 466,993</u>
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INTERNAL CONTROL AND COMPLIANCE

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

November 14, 2012

Honorable Members of the
City Council of the
City of 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated November 14, 2012.

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

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

November 14, 2012

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, Michigan* (the "City") for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. 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 July 17, 2012, 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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 September 14, 2012.

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. No 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 pension and other postemployment benefits plans 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.

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 correct the amount recorded as construction in progress and capital contributions revenue for work completed through June 30, 2012 on the cleanwater plant expansion.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

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 14, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 cursive script that reads "Lehmann Johnson".

CITY OF GRANDVILLE, MICHIGAN

■ Attachment A - Consideration of Internal Control Over Financial Reporting For the June 30, 2012 Audit

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”) for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012.

In planning and performing our audit 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

The City has made significant progress over the last two years in improving internal controls over accounting functions and ensuring that such controls are well documented. Nevertheless, there remain certain incompatible accounting functions performed by the same individual that are not subject to a consistent independent review and approval. The City has determined 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:

- 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
- 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 periodically re-evaluate whether the cost of implementing additional controls does in fact exceed the anticipated benefit and make adjustments to the control structure accordingly.



CITY OF GRANDVILLE, MICHIGAN

Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2012 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “pronouncements” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 63 ■ Deferred Inflows, Outflows, and Net Position

Effective 12/15/2012 (your FY 2013)

This standard will introduce new terminology to the balance sheet by creating a category of quasi-assets called “deferred outflows”, and a category of quasi-liabilities called “deferred inflows”. As a result, the term “net assets” will no longer be used, and is replaced by the more generic term “net position”. Essentially, deferred inflows and outflows will be used to report transactions that occurred prior to year end that relate to revenues and expenses (inflows and outflows) of future periods. The format of the new “statement of net position” will be presented as *assets + deferred outflows - liabilities - deferred inflows = net position*. Net position will be further categorized into *net investment in capital assets, restricted, and unrestricted* amounts. Fund balance of governmental funds will be unaffected, and governmental funds will continue to report a traditional balance sheet (*assets = liabilities + fund balance*).

GASB 64 ■ Derivative Instruments (an Amendment of GASB 53)

Effective 06/15/2011 (your FY 2011)

Under certain circumstances, a government is permitted to enter into swap agreements to “hedge” or protect against the risk of loss. The government is required to recognize the income statement impact of a hedge upon its termination. This standard addresses whether amending an existing swap agreement or entering into a new swap agreement qualifies as a termination for accounting purposes.

Statement No. 64 is already in effect. However, since the City does not hold any derivative instruments, this standard had no impact on its financial reporting.

GASB 65 ■ Items Previously Reported as Assets and Liabilities

Effective 12/15/2013 (your FY 2014)

This standard builds on the new terminology introduced in GASB 63. Certain items previously reported as assets and liabilities will now be classified as deferred inflows and outflows, while other items will no longer be carried on the balance sheet. As such, a restatement of beginning equity may be required to write off balances from previous years that no longer meet the definition for presentation on the balance sheet. The term “deferred revenue” will no longer be used by governments for any purpose. While GASB 65 is not required to be implemented until one year after GASB 63, we recommend that they be adopted together, as the standards complement one another.

CITY OF GRANDVILLE, MICHIGAN

Attachment B - Upcoming Changes in Accounting Standards For the June 30, 2012 Audit

The following table provides examples of balances affected by this standard:

Item	Pre-GASB 65	Post-GASB 65
Loss/gain on refunding of bonds payable	Liability/asset ("deferred loss/gain on refunding")	Deferred outflow/inflow
Property taxes levied prior to the year they are intended to finance	Liability ("deferred revenue")	Deferred inflow
Grant funds received but all grant requirements not met	Provider: asset ("advance to...") Recipient: liability ("advance from...")	No change
Grant funds received and all grant requirements met, but advance is for the following program year	Provider: asset ("advance to...") Recipient: liability ("advance from...")	Provider: deferred outflow Recipient: deferred inflow
Bond issuance costs	Asset ("deferred bond issuance costs" or "deferred bond charges")	Expense in year incurred
Initial direct costs of operating leases	Asset ("prepaid")	Expense in year incurred
Unexpended proceeds of expenditure-driven grants; charges for services collected in advance	Liability ("deferred revenue")	Liability ("unearned revenue")
Revenues not "available" in governmental funds because they are not collected soon enough after year-end	Liability ("deferred revenue")	Deferred inflow

GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62) *Effective 12/15/2013 (your FY 2014)*

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the City at this time.

GASB 67 ■ Financial Reporting for Pension Plans *Effective 06/15/2014 (your FY 2014)*

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary. Because the City does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the City at this time.

CITY OF GRANDVILLE, MICHIGAN

■ Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2012 Audit

GASB 68 ■ Accounting and Financial Reporting for Pensions *Effective 06/15/2015 (your FY 2015)*

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.





**The City
of Grandville**

CITY HALL

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

November 14, 2012

Rehmann Robson
2330 East Paris Avenue SE
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of the financial statements of the *City of Grandville, Michigan* (the "City") as of June 30, 2012 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, Michigan 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 over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 14, 2012, 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 audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
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.

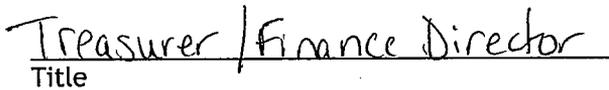
For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, 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.
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.

- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
15. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience 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. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts 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 investments are properly classified as to risk and are properly disclosed.
 28. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
 29. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
 30. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.

31. 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.
32. With respect to the combining and individual fund financial statements and schedules, we acknowledge our responsibility for presenting the combining and individual fund financial statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements and schedules, including their form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual fund financial statements and schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
33. We have evaluated the City's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
34. Expenditures of federal awards were below the \$500,000 threshold in the audit period and we were not required to have an audit in accordance with OMB Circular A-133.
35. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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


Signature


Title


Title