



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013



Vredeveld Haefner LLC

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

September 27, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 39 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The continuing disclosure filing section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Uredaxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of East Grand Rapids (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2013 fiscal year as follows:

- Advance refunding of the 2004 unlimited tax bond obligation for \$8.4 million which resulted in an average annual cash flow savings of \$86,400.
- Completed multiple road and infrastructure improvements including \$251,000 in the Major Street Fund and \$380,000 in the Local Street Fund.
- Infrastructure improvements of \$906,000 and water tower renovation costs of \$370,000 were incurred in the Water and Sewer Fund.
- In the Motor Pool Equipment Replacement Fund, \$478,000 was invested in various vehicle and equipment replacements.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Building Authority for which the City is financially accountable. There was no current year activity in the Building Authority.

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

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

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

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

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the general fund to demonstrate legal compliance.

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

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

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

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

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

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$28,008,272 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 6,143,512	\$ 6,010,350	\$ 913,889	\$1,051,565	\$ 7,057,401	\$ 7,061,915
Long-term assets	25,008,259	25,236,010	9,368,743	8,445,168	34,377,002	33,681,178
Total assets	31,151,771	31,246,360	10,282,632	9,496,733	41,434,403	40,743,093
Liabilities						
Current liabilities	1,509,028	1,025,106	698,117	469,397	2,207,145	1,494,503
Long-term liabilities	10,967,635	11,098,408	251,351	252,579	11,218,986	11,350,987
Total liabilities	12,476,663	12,123,514	949,468	721,976	13,426,131	12,845,490
Net position						
Invested in capital assets, net of related debt	13,705,874	13,861,279	8,971,146	8,101,880	22,677,020	21,963,159
Restricted	1,513,428	1,479,489	-	-	1,513,428	1,479,489
Unrestricted	3,455,806	3,782,078	362,018	672,877	3,817,824	4,454,955
Total net position	\$18,675,108	\$19,122,846	\$9,333,164	\$8,774,757	\$28,008,272	\$27,897,603

By far the largest portion of the City's net position in the amount of 81% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of 5% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position in the amount of \$3,817,824, or 14%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position; for the government as a whole, governmental activities, and the business-type activities.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2013, was \$15,312,675 while total cost of all programs and services was \$15,514,160. This resulted in a decrease in net position of \$201,485. The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$1,622,558	\$1,610,731	\$3,702,440	\$3,493,640	\$5,324,998	\$5,104,371
Operating grants and contributions	797,353	723,853	-	-	797,353	723,853
Capital grants and contributions	-	352,552	-	150,000	-	502,552
General revenues						
Property taxes	8,008,022	7,877,485	-	-	8,008,022	7,877,485
State shared revenues	864,849	843,650	-	-	864,849	843,650
Cable franchise fees	200,622	188,716	-	-	200,622	188,716
Investment earnings	29,132	35,134	162	66,825	29,294	101,959
Gain on sale of assets	87,537	-	-	-	87,537	-
Total revenues	11,610,073	11,632,121	3,702,602	3,710,465	15,312,675	15,342,586
Expenses						
Legislative	63,684	45,570	-	-	63,684	45,570
General government	2,201,093	2,039,505	-	-	2,201,093	2,039,505
Public safety	4,680,173	4,551,519	-	-	4,680,173	4,551,519
Public works	3,225,538	3,393,176	-	-	3,225,538	3,393,176
Culture and recreation	1,928,990	1,488,281	-	-	1,928,990	1,488,281
Other	-	170,059	-	-	-	170,059
Interest on long-term debt	365,894	513,574	-	-	365,894	513,574
Water and sewer	-	-	3,048,788	2,957,057	3,048,788	2,957,057
Total expenses	12,465,372	12,201,684	3,048,788	2,957,057	15,514,160	15,158,741
Increase (decrease) in net position	(855,299)	(569,563)	653,814	753,408	(201,485)	183,845
Net position – beginning, as restated	19,530,407	19,692,409	8,679,350	8,021,349	28,209,757	27,713,758
Net position – ending	\$18,675,108	\$19,122,846	\$9,333,164	\$8,774,757	\$28,008,272	\$27,897,603

Governmental Activities The preceding table shows that the governmental activities decreased the City's net position by \$855,299 during this fiscal year. The decrease is primarily the result of depreciation on capital assets during the year.

Business-type Activities Business-type activities increased the City's net position by \$653,814 during the year. This increase is primarily the result of additional charges for services due to new customers and increased usage as well as the first full year of rate increases which were implemented in October 2011.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,106,308, an increase of \$143,879 from the prior year. This was primarily due to the increase in tax revenues in the current year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, nonspendable fund balance of \$20,624 relates to prepaid assets, restricted fund balance of \$48,082 relates to public safety and committed fund balance of \$215,000 relates to future activities committed to by the Board. Unassigned fund balance represents \$2,337,715 of total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 26% of total general fund expenditures.

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

The City's enterprise operation consists of the water and sewer fund which provides services to most residents and businesses of the City. This fund experienced an increase in net position of \$653,814 due to additional charges for services resulting from new customers and increased usage.

Budgetary Highlights

Revenues in the General Fund were approximately \$108,700 more than budget. This was mainly due to additional tax revenue of \$24,000 and unexpected drug seizure proceeds of \$72,700.

Expenditures in the General Fund were \$70,900 more than final budgeted amounts. This is primarily due to an increase in the health insurance rates charged by the Health Insurance Internal Service Fund. The Health Insurance Internal Service Fund shows an offsetting increase in revenue for these additional rates charged.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$34,343,694 (net of accumulated depreciation). Of this amount, \$24,974,951 was for its governmental activities and \$9,368,743 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

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

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

Long-term debt At the end of the current fiscal year, the City had total long-term debt outstanding of \$11,876,108. Of this amount, \$11,478,511 was for governmental activities while \$397,597 was for business-type activities.

The City's total long-term debt increased by approximately \$227,800 during the current fiscal year primarily as a result of a refunding offset by payment of scheduled debt service requirements.

Additional information on the City's long-term debt can be found in Note 8 to these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2014 fiscal year:

- Property taxes, which comprise 74% of the General Fund budget, were increased by 3.51% in the 2013/2014 budget. This is due to an overall assessed value increase of 6.17% and a taxable value increase of 3.69%.
- The 2013/2014 budget contains a property tax levy of 13.4586, which is a reduction of 0.0609 from last year, which is the maximum available under the Headlee Amendment.
- The 2013/2014 budget contains a 1.5% cost of living increase for union and non-union employees.
- Increases in health insurance costs and in the defined benefit required payments are expected and have been reflected in the 2013/2014 budget.
- The General Fund unrestricted ending balance for 2013/2014 is budgeted at 23% of expenditures including transfers.
- Water and sewer rates remained the same for the 2013/2014 budget.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF EAST GRAND RAPIDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,342,352	\$ 250,486	\$ 1,592,838
Investments	3,953,066	-	3,953,066
Accounts receivable	174,691	617,224	791,915
Special assessments receivable	45,640	-	45,640
Internal balances	5,139	(5,139)	-
Due from other governments	287,095	-	287,095
Inventory	70,013	50,289	120,302
Prepaid and other assets	56,082	1,029	57,111
Debt issuance costs, net	209,434	-	209,434
Capital assets			
Land	2,124,000	-	2,124,000
Depreciable capital assets, net	22,850,951	9,368,743	32,219,694
Net other post employment benefits asset	33,308	-	33,308
Total assets	31,151,771	10,282,632	41,434,403
Liabilities			
Accounts payable	390,908	528,547	919,455
Accrued liabilities	339,926	8,301	348,227
Unearned revenue	43,030	-	43,030
Compensated absences	224,288	15,023	239,311
Noncurrent liabilities			
Due within one year	510,876	146,246	657,122
Due in more than one year	10,967,635	251,351	11,218,986
Total liabilities	12,476,663	949,468	13,426,131
Net position			
Invested in capital assets, net of related debt	13,705,874	8,971,146	22,677,020
Restricted for			
Major and local streets	1,258,958	-	1,258,958
Capital projects	66,270	-	66,270
Public safety	48,082	-	48,082
Debt service	-	-	-
Unrestricted	3,595,924	362,018	3,957,942
Total net position	\$ 18,675,108	\$ 9,333,164	\$ 28,008,272

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 63,684	\$ -	\$ -	\$ -	\$ (63,684)
General government	2,201,093	270,976	-	-	(1,930,117)
Public safety	4,680,173	112,693	5,005	-	(4,562,475)
Public works	3,225,538	301,147	792,348	-	(2,132,043)
Recreation and culture	1,928,990	937,742	-	-	(991,248)
Interest on long-term debt	365,894	-	-	-	(365,894)
Total governmental activities	<u>12,465,372</u>	<u>1,622,558</u>	<u>797,353</u>	<u>-</u>	<u>(10,045,461)</u>
Business-type activities					
Water and sewer	3,048,788	3,702,440	-	-	653,652
Total primary government	<u>\$ 15,514,160</u>	<u>\$ 5,324,998</u>	<u>\$ 797,353</u>	<u>\$ -</u>	<u>\$ (9,391,809)</u>

(continued)

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (10,045,461)	\$ 653,652	\$ (9,391,809)
General revenues			
Property taxes	8,008,022	-	8,008,022
State shared revenues	864,849	-	864,849
Cable franchise fees	200,622	-	200,622
Unrestricted investment earnings	29,132	162	29,294
Gain on sale of fixed assets	<u>87,537</u>	<u>-</u>	<u>87,537</u>
 Total general revenues and transfers	 <u>9,190,162</u>	 <u>162</u>	 <u>9,190,324</u>
 Change in net position	 (855,299)	 653,814	 (201,485)
 Net position, beginning of year, as restated	 <u>19,530,407</u>	 <u>8,679,350</u>	 <u>28,209,757</u>
 Net position, end of year	 <u>\$ 18,675,108</u>	 <u>\$ 9,333,164</u>	 <u>\$ 28,008,272</u>

(concluded)

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

CITY OF EAST GRAND RAPIDS

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>Municipal Complex</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 130,532	\$ 118,210	\$ 995,767	\$ 1,244,509
Investments	2,707,694	-	253,778	2,961,472
Accounts receivable	104,119	-	3,992	108,111
Special assessment receivable	-	-	45,640	45,640
Due from other governments	177,537	-	109,558	287,095
Inventory	-	-	17,696	17,696
Prepaid items	20,624	-	1,846	22,470
Total assets	\$ 3,140,506	\$ 118,210	\$ 1,428,277	\$ 4,686,993
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 340,181	\$ -	\$ 15,333	\$ 355,514
Due to other funds	42,838	-	5,810	48,648
Accrued liabilities	93,036	-	7,628	100,664
Deferred revenue	43,030	-	32,828	75,858
Total liabilities	519,085	-	61,599	580,684
Fund balances				
Nonspendable				
Inventory	-	-	17,696	17,696
Prepays	20,624	-	1,846	22,470
Restricted				
Streets	-	-	1,258,958	1,258,958
Public safety	48,082	-	-	48,082
Debt service	-	118,210	21,908	140,118
Committed				
Turf replacement	215,000	-	-	215,000
Assigned				
Debt service	-	-	-	-
Capital projects	-	-	66,270	66,270
Unassigned	2,337,715	-	-	2,337,715
Total fund balances	2,621,421	118,210	1,366,678	4,106,309
Total liabilities and fund balances	\$ 3,140,506	\$ 118,210	\$ 1,428,277	\$ 4,686,993

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

CITY OF EAST GRAND RAPIDS

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

JUNE 30, 2013

Fund balances - total governmental funds	\$ 4,106,309
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	2,124,000
Add - capital assets (net of accumulated depreciation)	20,988,194
Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - special assessments deferred receivable	32,828
Certain expenditure are recognized in the fund when paid but are recognized in government-wide financial statement when due.	
Add - net other postemployment benefit asset	33,308
Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service funds	2,954,886
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Add - bond issuance costs	209,434
Deduct - compensated absences payable	(213,955)
Deduct - bonds payable	(11,478,511)
Deduct - accrued interest on bonds payable	(81,385)
Net position of governmental activities	<u>\$ 18,675,108</u>

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

CITY OF EAST GRAND RAPIDS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Municipal Complex</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 7,389,260	\$ 494,235	\$ 124,527	\$ 8,008,022
Intergovernmental revenues				
Federal	-	-	3,510	3,510
State	870,221	-	788,838	1,659,059
Licenses and permits	250,571	-	-	250,571
Charges for services	1,310,311	-	-	1,310,311
Fines	112,265	-	-	112,265
Special assessments	-	-	15,093	15,093
Rentals	149,665	-	-	149,665
Investment earnings	17,438	93	6,681	24,212
Total revenues	<u>10,099,731</u>	<u>494,328</u>	<u>938,649</u>	<u>11,532,708</u>
Expenditures				
Current				
Legislative	37,256	-	-	37,256
General government	1,333,244	426,139	-	1,759,383
Public safety	4,320,616	-	-	4,320,616
Public works	1,432,928	-	1,633,484	3,066,412
Culture and recreation	1,580,624	-	-	1,580,624
Debt service				
Principal	-	110,000	302,000	412,000
Interest	-	306,241	100,485	406,726
Capital outlay	224,227	-	1,585	225,812
Total expenditures	<u>8,928,895</u>	<u>842,380</u>	<u>2,037,554</u>	<u>11,808,829</u>
Revenues over (under) expenditures	<u>1,170,836</u>	<u>(348,052)</u>	<u>(1,098,905)</u>	<u>(276,121)</u>
Other financing sources (uses)				
Issuance of long-term debt	-	8,400,000	-	8,400,000
Refunded debt	-	(7,980,000)	-	(7,980,000)
Transfers in	-	-	1,326,138	1,326,138
Transfers out	(1,029,000)	-	(297,138)	(1,326,138)
Total other financing sources (uses)	<u>(1,029,000)</u>	<u>420,000</u>	<u>1,029,000</u>	<u>420,000</u>
Net changes in fund balances	141,836	71,948	(69,905)	143,879
Fund balances, beginning of year	<u>2,479,585</u>	<u>46,261</u>	<u>1,436,583</u>	<u>3,962,429</u>
Fund balances, end of year	<u>\$ 2,621,421</u>	<u>\$ 118,209</u>	<u>\$ 1,366,678</u>	<u>\$ 4,106,308</u>

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

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - total governmental funds \$ 143,879

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

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

Add - capital outlay	802,352
Deduct - depreciation expense	(1,457,203)

Some receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(15,093)
--------------------------------------	----------

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

Deduct - bond issue	(8,400,000)
Add - principal payments on debt	8,392,000
Deduct - premium on bond issue net of amortization	(165,602)

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

Deduct - increase in compensated absences	(18,568)
Add - bond issuance costs	57,035
Deduct - amortization of bond issuance costs	(12,848)
Deduct - decrease in net other postemployment benefits asset	(201,764)
Add - decrease in accrued interest	40,832

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

Deduct - decrease in net position of the internal service funds	(20,319)
---	----------

Change in net position of governmental activities **\$ (855,299)**

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2013

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Assets		
Current assets		
Cash and pooled investments	\$ 250,486	\$ 97,843
Investments	-	991,594
Accounts receivable	617,224	66,580
Due from other funds	-	55,668
Prepaid and other assets	1,029	33,612
Inventory	<u>50,289</u>	<u>52,317</u>
Total current assets	919,028	1,297,614
Capital assets		
Depreciable capital assets, net	<u>9,368,743</u>	<u>1,862,757</u>
Total assets	<u>10,287,771</u>	<u>3,160,371</u>
Liabilities		
Current liabilities		
Accounts payable	528,547	35,394
Accrued liabilities	8,301	157,877
Due to other funds	5,139	1,881
Compensated absences	15,023	10,333
Current portion of long-term debt	<u>146,246</u>	<u>-</u>
Total current liabilities	703,256	205,485
Long-term liabilities		
Bonds payable, net of current portion	<u>251,351</u>	<u>-</u>
Total liabilities	<u>954,607</u>	<u>205,485</u>
Net position		
Investment in capital assets, net of related debt	8,971,146	1,862,757
Unrestricted	<u>362,018</u>	<u>1,092,129</u>
Total net position	<u>\$ 9,333,164</u>	<u>\$ 2,954,886</u>

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

CITY OF EAST GRAND RAPIDS

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenue		
Charges for services	\$ 3,622,997	\$ 2,018,793
Other	79,443	-
Total operating revenue	3,702,440	2,018,793
Operating expense		
Personnel services	480,294	166,988
Contractual services	28,065	319,236
Materials and supplies	1,101,941	244,528
Equipment	176,620	3,084
Claims	9,865	966,991
Administration	152,330	174,038
Depreciation	467,282	256,704
Miscellaneous	619,603	-
Total operating expense	3,036,000	2,131,569
Operating income (loss)	666,440	(112,776)
Non-operating revenue (expense)		
Gain on sale of fixed assets	-	87,537
Investment earnings	162	4,920
Interest expense	(12,788)	-
Total non-operating revenue (expense)	(12,626)	92,457
Changes in net position	653,814	(20,319)
Net position, beginning of year, as restated	8,679,350	2,975,205
Net position, end of year	\$ 9,333,164	\$ 2,954,886

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Funds</u>
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 1,916,267
Receipts from customers and users	3,875,434	-
Payments to employees	(480,891)	(167,158)
Payments to suppliers	<u>(1,905,520)</u>	<u>(1,587,866)</u>
Net cash provided by (used in) operating activities	<u>1,489,023</u>	<u>161,243</u>
Cash flows from capital and related financing activities		
Interest expense	(12,788)	-
Principal paid on bonds	(141,135)	-
Proceeds on sale of capital assets	-	87,537
Proceeds from issuance of debt	195,372	-
Acquisitions of capital assets	<u>(1,486,266)</u>	<u>(478,005)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,444,817)</u>	<u>(390,468)</u>
Cash flows from investing activities		
Net investment activity	-	(3,602)
Interest income	<u>162</u>	<u>4,920</u>
Net cash provided by (used in) investing activities	<u>162</u>	<u>1,318</u>
Net increase (decrease) in cash and pooled investments	44,368	(227,907)
Cash and pooled investments, beginning of year	<u>206,118</u>	<u>325,750</u>
Cash and pooled investments, end of year	<u>\$ 250,486</u>	<u>\$ 97,843</u>
Cash flows from operating activities		
Operating income (loss)	\$ 666,440	\$ (112,776)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	467,282	256,704
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	172,994	(48,739)
Due from other funds	-	(55,668)
Prepaid and other assets	300	(5,732)
Inventory	3,611	(8,505)
Accounts payable	173,854	23,586
Due to other funds	5,139	1,881
Accrued liabilities	(3,321)	110,271
Compensated absences	<u>2,724</u>	<u>221</u>
Net cash provided by (used in) operating activities	<u>\$ 1,489,023</u>	<u>\$ 161,243</u>

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION/BALANCE SHEET
JUNE 30, 2013

	Other Post employment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 18,249
Mutual fund	<u>1,113,668</u>	<u>-</u>
Total assets	1,113,668	<u>\$ 18,249</u>
Liabilities		
Due to other governmental units	<u>-</u>	<u>\$ 18,249</u>
Net position		
Held in trust for other post employment benefits	<u>\$ 1,113,668</u>	

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Other Post employment Benefit <u>Trust</u>
Additions	
Contributions:	
Employer	\$ 145,840
Investment earnings	<u>74,078</u>
Total Additions	219,918
Deductions	
Benefits	<u>145,840</u>
Net increase	74,078
Net position, beginning of year	<u>1,039,590</u>
Net position, end of year	<u><u>\$ 1,113,668</u></u>

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Grand Rapids, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Unit

The Building Authority is governed by a board appointed by the City Commission. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its sole purpose is to finance and construct the City's public buildings. The Building Authority had no activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are changes between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants, state shared revenue and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

The City reports the following major governmental funds:

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

The *Municipal Complex Debt Service Fund* is used to account for resources accumulated and payments made for principal and interest on the municipal complex bond.

The City reports the following major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services on a user charge basis.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Additionally, the City reports the following fund types:

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

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

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

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

The *Other Postemployment Benefits Trust Fund* is used to account for the operations of the City Other Postemployment Benefits Plan which provides other postemployment benefits to the City's employees.

The *Agency Fund* is used to account for the collection and disbursement of funds that are collected on behalf of outside governments or other parties.

Budgets and Budgetary Accounting

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

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal at any time similar to a demand deposit account.

Investments

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

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

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

Receivables/Due from Other Governments

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

Special Assessments Receivable

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

Prepaid and Other Assets

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

Inventory

All inventories are valued at original cost using the first-in/first-out (FIFO) method. Inventory represents parts, materials, and supplies utilized in the various City operations.

Capital Assets

Capital assets, which include land, construction in progress, buildings, vehicles and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

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

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

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

Deferred Revenue

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

Fees received in advance	\$43,030
Special assessments	<u>32,828</u>
Total governmental funds deferred revenue	<u>\$75,858</u>

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method.

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

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

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

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

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

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. Tax bills include the City's own property taxes and taxes billed on behalf of other taxing units. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Taxes collected on behalf of other taxing units are accounted for in the agency funds. Property taxes levied in July of each year are recognized as revenue in the year in which they are levied.

Interfund Transactions

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

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

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

During the year ended June 30, 2013, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General fund	\$ 8,857,989	\$ 8,928,895	\$(70,906)

3. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$1,592,838	\$ 18,249	\$1,611,087
Investments	3,953,066	1,113,668	5,066,734
	<u>\$5,545,904</u>	<u>\$1,131,917</u>	<u>\$6,677,821</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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

Deposits	\$2,188,854
Investments	4,488,467
Petty cash	500
Total	\$6,677,821

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$1,504,079 of the City's bank balance of \$2,254,079 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Governmental activities				
Kent County Investment Pool	N/A	\$3,374,799	Unrated	
Other Postemployment Benefits Trust Fund				
Vantagepoint Milestone Ret. Income Fund	N/A	1,113,668	3 stars	Morningstar
Total		\$4,488,467		

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

Investment and deposit risk

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

At June 30, 2013 the balance of the Kent County Public Funds Investment Pool consisted of the following:

<u>Investment</u>	<u>Percentage of pool total</u>	<u>Maturity in years</u>
Government agency securities	24%	0-4
Certificates of deposits	61%	0-4
Money markets and other pools	15%	Not applicable

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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

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

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at June 30, 2013 were as follows:

<u>Receivable fund</u>	<u>Payable fund</u>				<u>Total</u>
	<u>General fund</u>	Nonmajor governmental funds	Enterprise fund	Internal service funds	
Internal service funds	\$42,838	\$5,810	\$5,139	\$1,881	\$55,668

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

Transfers in and out for the year ended June 30, 2013 are as follows:

<u>Transfers out</u>	<u>Transfers in</u>
General fund	Nonmajor governmental funds
Nonmajor governmental funds	\$1,029,000
	297,138
Total	\$1,326,138

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	37,242	-	37,242	-
Total capital assets, not being depreciated	2,161,242	-	37,242	2,124,000
Capital assets, being depreciated				
Land improvements	1,933,767	-	-	1,933,767
Buildings	12,417,729	-	-	12,417,729
Building improvements	3,521,433	5,650	-	3,527,083
Vehicles and equipment	4,271,550	643,434	606,457	4,308,527
Infrastructure	16,062,860	631,273	-	16,694,133
Total capital assets, being depreciated	38,207,339	1,280,357	606,457	38,881,239
Less accumulated depreciation for				
Land improvements	419,708	97,663	-	517,371
Buildings	2,565,363	400,170	-	2,965,533
Building improvements	1,986,736	178,869	-	2,165,605
Vehicles and equipment	2,451,333	321,655	606,457	2,166,531
Infrastructure	7,499,698	715,550	-	8,215,248
Total accumulated depreciation	14,922,838	1,713,907	606,457	16,030,288
Net capital assets, being depreciated	23,284,501	(433,550)	-	22,850,951
Governmental Activities capital assets, net	\$ 25,445,743	\$(433,550)	\$ 37,242	\$24,974,951
Business-type Activities				
Construction in progress	\$ 8,260	\$ -	\$ 8,260	\$ -
Capital assets being depreciated				
Sewer system	8,589,558	321,653	-	8,911,211
Water system	6,810,138	607,815	-	7,417,953
Lift station	390,983	-	-	390,983
Water tower	303,228	369,686	112,900	560,014
Drains	1,530,664	195,372	-	1,726,036
Meters	350,271	-	-	350,271
Total capital assets, being depreciated	17,974,842	1,494,526	112,900	19,356,468
Less accumulated depreciation for				
Sewer system	5,283,089	179,755	-	5,462,844
Water system	2,230,146	130,608	-	2,360,754
Lift station	259,465	15,639	-	275,104
Water tower	297,268	37,465	112,900	221,833
Drains	1,309,428	86,302	-	1,395,730
Meters	253,947	17,513	-	271,460
Total accumulated depreciation	9,633,343	467,282	112,900	9,987,725
Business-type Activities capital assets, net	\$8,349,759	\$1,027,244	\$ 8,260	\$9,368,743

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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

Governmental Activities	
General government	\$ 291,441
Public safety	218,580
Public works	728,602
Recreation and culture	218,580
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>256,704</u>
Total depreciation expense - governmental activities	<u><u>\$1,713,907</u></u>
Business-type Activities	
Water and sewer	<u>\$467,282</u>

6. PENSION PLANS

Defined Benefit Plan

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined amount, which for the current year was \$786,132. Employees are required to contribute to the Plan from 0% to 5% of covered payroll dependent on the bargaining unit. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by employment and labor agreements.

For the year ended June 30, 2013, the City's annual pension cost of \$786,132 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus from 0% to 8.4% based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the most recent actuarial valuation, was 26 years.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/11	\$604,620	100%	\$ -
6/30/12	694,092	100%	-
6/30/13	786,132	100%	-

Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/12	\$10,573,074	\$17,990,797	\$7,417,723	59%	\$506,750	1464%

Defined Contribution Plans

The City also maintains three defined contribution retirement plans offered and administered by MERS. The City services defined contribution plan covers all City service employees hired on or after July 7, 1999 and all City service employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. The Non-Union Defined Contribution Plan covers all non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. The Public Safety Defined Contribution Plan covers all public safety officers, lieutenants, and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002.

City Services Defined Contribution Plan

The City Services Plan requires participants and the City to each contribute 5% of the participants' salaries to the Plan. Participants have the option to contribute an additional 1%. The City's contribution for the year was \$43,046 and the employees' contribution was \$43,046.

Non-Union Defined Contribution Plan

The Non-Union Plan gives participants the option to contribute up to 1% of their salary to the plan. The City is required to contribute 14% of the participants' salaries and match the employees' optional contribution. The City's contribution for the year was \$218,211 and the employees' contribution was \$14,548.

Public Safety Defined Contribution Plan

The Public Safety Plan requires participants to contribute 3.77-3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salaries to the Plan. The City's contribution for the year was \$251,996 and the employees' contribution was \$63,511.

7. OTHER POSTEMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (the Plan). The plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 55 years of age, with 25 years of service to the City, and is maintained until the employee is eligible for federal Medicare coverage at age 65. The City established a

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

retirement health savings trust to account for the Plan effective June 13, 2008. The Plan does not issue a separate financial report.

The City contributes to the Plan as determined by the City Commission. The annual required contribution (ARC) was \$363,696 while the City contributed \$145,840 to the plan, which was the amount paid in direct payments for retirees from the health insurance internal service fund to provide insurance coverage for 8 retired employees. The contribution requirements of the Plan members and the City are established and may be amended by the City Commission.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a period of fifteen years.

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

Annual required contribution	\$ 363,686
Interest on Net OPEB obligation	14,105
Adjustment to annual required contribution	<u>(30,187)</u>
Annual OPEB cost (expense)	347,604
Contribution made	<u>145,840</u>
Decrease in net OPEB asset	(201,764)
Net OPEB asset, beginning of year	<u>235,072</u>
Net OPEB asset, end of year	<u><u>\$ 33,308</u></u>

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Asset</u>
6/30/11	\$233,844	77%	\$341,262
6/30/12	296,558	64%	235,072
6/30/13	347,604	42%	33,308

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Market</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
6/30/13	\$1,113,668	\$3,816,549	\$2,702,881	29.2%	\$4,154,430	65.0%

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The June 30, 2013 actuarial valuation of the Plan utilized the individual entry age actuarial cost method. The actuarial assumptions included: a rate of return on investments of 3%, projected salary increases of 2.8% attributable to inflation, and projected healthcare benefit increases of 5%. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 15 year period.

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2013:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities					
\$8,740,000 Unlimited Tax General Obligation Bonds, Series 2004; due in annual installments of \$110,000 to \$550,000 through April 2034, plus interest at 3.50% to 4.875%	\$ 8,210,000	\$ -	\$ 8,090,000	\$ 120,000	\$120,000
\$8,400,000 Unlimited Tax General Obligation Bonds, Series 2012B; due in annual installments of \$70,000 to \$570,000 through June 2033, plus interest at 2% to 4%	-	8,400,000	-	8,400,000	70,000
\$3,140,000 2005 Michigan Transportation Fund Bonds; due in annual installments of \$185,000 to \$265,000 through April 2020, plus interest at 3.50% to 4.25%	1,860,000	-	205,000	1,655,000	210,000

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Balance</u> <u>July 1,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2013</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
\$1,243,000 Unlimited Tax General Obligation Refunding Bonds Series 2012; due in annual installments of \$97,000 to \$151,000 through April 2022, plus interest at 1.99%	\$ 1,243,000	\$ -	\$ 97,000	\$ 1,146,000	\$103,000
Total	11,313,000	8,400,000	8,392,000	11,321,000	503,000
Unamortized discount	(8,091)	-	(8,091)	-	-
Unamortized premium	-	165,387	7,876	157,511	7,876
Total Governmental Activities	\$11,304,909	\$8,565,387	\$8,391,785	\$11,478,511	\$510,876
Business-type Activities					
\$981,824 Kent County Silver Creek Drain Refunding Bonds (18.65% City portion), due in annual installments of \$64,960 to \$107,648 through November 2015; plus interest 3.00% to 4.25%	\$343,360	\$ -	\$103,008	\$240,352	\$107,648
\$195,372 Kent County Silver Creek Drain Note (72.9% City portion), due in annual installments of \$38,127 to \$40,017 through March 2017; plus interest 1.5%	-	195,372	38,127	157,245	38,598
Total Business-type Activities	\$343,360	\$ 195,372	\$ 141,135	\$397,597	\$146,246

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2013 are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 503,000	\$ 325,542	\$146,246	\$9,411
2015	541,000	309,656	104,034	5,644
2016	588,000	294,996	107,301	2,423
2017	621,000	279,310	40,016	494
2018	667,000	262,202	-	-
2019-2023	3,006,000	992,223	-	-
2024-2028	2,685,000	627,125	-	-
2029-2033	2,710,000	241,650	-	-
Total	\$11,321,000	\$3,332,704	\$397,597	\$17,972

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

During fiscal 2013, the City issued \$8,400,000 of unlimited tax general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for debt service. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$1,901,324, which resulted in an economic gain of \$1,351,094. As of June 30, 2013, \$7,980,000 of the refunded bonds are considered defeased and will be repaid April 1, 2014.

9. RISK MANAGEMENT

The City is self-funded for employees' health benefits. The claims liability of \$155,911 reported at June 30, 2013 is based on the requirements of Statement No. 10 of the Governmental Accounting Standards Board, which requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The activity of the self-funded insurance is accounted for in the Health Insurance Internal Service fund. An excess coverage insurance policy covers claims in excess of \$40,000 per covered individual. There were no changes in insurance coverage from the prior year. The City is responsible for paying administrative charges which are included in this fund. The revenues for this fund's operation are charges to various funds, employee withholdings, and co-payments. The liability at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in the history of the self-insurance program, and there have been no significant reductions in insurance coverage from the prior year.

The changes in the claims liability for the years ended June 30, 2013 and 2012 were as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2012	\$80,487	\$ 507,770	\$543,008	\$ 45,249
2013	45,249	1,027,510	916,848	155,911

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no changes in insurance coverage from the prior year.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its member by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

10. LITIGATION

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

11. CONSTRUCTION CODE FEES

The City oversees building construction in accordance with the State of Michigan Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. During the year, the City collected fees of \$47,954 with related direct and indirect expenditures in excess of that amount.

12. COMMITMENTS

At year-end the City had construction commitments of approximately \$311,000.

13. PRIOR PERIOD ADJUSTMENT

Beginning net position of the motor pool fund was increased by \$34,327, the water and sewer fund/business-type activities was decreased by \$95,407 and the governmental activities was increased by \$407,561 to update the City's capital asset records based on a physical inventory conducted during the fiscal year ended 2013.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 7,370,000	\$ 7,365,000	\$ 7,389,260	\$ 24,260
Intergovernmental revenues				
State	759,000	869,200	870,221	1,021
Licenses and permits	223,000	233,000	250,571	17,571
Charges for services	1,401,400	1,318,800	1,310,311	(8,489)
Fines	40,600	40,000	112,265	72,265
Rentals	152,000	152,000	149,665	(2,335)
Investment earnings	16,000	13,000	17,438	4,438
Total revenues	<u>9,962,000</u>	<u>9,991,000</u>	<u>10,099,731</u>	<u>108,731</u>
Expenditures				
Current				
Legislative	30,400	45,000	37,256	7,744
General government	1,371,300	1,336,100	1,333,244	2,856
Public safety	4,134,800	4,194,700	4,320,616	(125,916)
Public works	1,612,900	1,481,300	1,432,928	48,372
Culture and recreation	1,671,200	1,611,900	1,580,624	31,276
Capital outlay	298,600	188,989	224,227	(35,238)
Total expenditures	<u>9,119,200</u>	<u>8,857,989</u>	<u>8,928,895</u>	<u>(70,906)</u>
Revenues over (under) expenditures	842,800	1,133,011	1,170,836	37,825
Other financing sources (uses)				
Transfers out	(1,029,000)	(1,029,000)	(1,029,000)	-
Net changes in fund balance	(186,200)	104,011	141,836	37,825
Fund balance, beginning of year	<u>2,479,585</u>	<u>2,479,585</u>	<u>2,479,585</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,293,385</u>	<u>\$ 2,583,596</u>	<u>\$ 2,621,421</u>	<u>\$ 37,825</u>

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

MERS DEFINED BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	\$ 11,286,065	\$ 17,905,375	\$ 6,619,310	63.03%	\$ 581,999	1137.34%
12/31/2011	10,941,905	17,937,022	6,995,117	61.00%	549,383	1273.27%
12/31/2012	10,573,074	17,990,797	7,417,723	58.77%	506,750	1463.78%

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

RETIREE HEALTH OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2011	\$ 817,320	\$ 2,607,925	\$ 1,790,605	31.34%	\$ 4,092,467	43.75%
6/30/2012	1,039,590	3,444,322	2,404,732	30.18%	4,232,877	56.81%
6/30/2013	1,113,668	3,816,549	2,702,881	29.18%	4,154,430	65.06%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2009	\$ 222,093	\$ 517,477	233%
2010	232,087	330,892	143%
2011	246,996	181,203	73%
2012	319,904	190,368	60%
2013	363,686	145,840	40%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

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

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF REVENUES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

Revenues	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Taxes				
Property taxes	\$ 7,345,000	\$ 7,345,000	\$ 7,367,102	\$ 22,102
Interest and penalties on property taxes	25,000	20,000	22,158	2,158
Total taxes	7,370,000	7,365,000	7,389,260	24,260
Intergovernmental revenue				
State shared revenue	752,500	862,800	864,849	2,049
State grants	6,500	6,400	5,372	(1,028)
Total intergovernmental revenue	759,000	869,200	870,221	1,021
Licenses and permits				
Business licenses	10,000	10,000	12,750	2,750
Cable television franchise fees	180,000	190,000	200,622	10,622
Building permits	25,000	25,000	26,737	1,737
Other	8,000	8,000	10,462	2,462
Total licenses and permits	223,000	233,000	250,571	17,571
Charges for services				
Administrative charges	130,000	130,000	130,000	-
Recreation fees	900,500	829,400	810,358	(19,042)
Grounds maintenance fees	140,000	121,600	118,855	(2,745)
Clerk's services	1,000	8,000	7,150	(850)
Right of way fees	32,000	32,000	35,849	3,849
Other	197,900	197,800	208,099	10,299
Total charges for services	1,401,400	1,318,800	1,310,311	(8,489)
Fines and penalties	40,600	40,000	112,265	72,265
Interest				
Interest	16,000	13,000	17,438	4,438
Rentals				
Cable tower rental	152,000	152,000	149,665	(2,335)
Total revenues	\$ 9,962,000	\$ 9,991,000	\$ 10,099,731	\$ 108,731

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Commission				
Personnel services	\$ 8,600	\$ 9,700	\$ 9,080	\$ 620
Contractual services	6,000	20,000	13,009	6,991
Other	15,800	15,300	15,167	133
Total legislative	30,400	45,000	37,256	7,744
General government				
City Manager				
Personnel services	255,000	256,700	260,896	(4,196)
Contractual services	1,500	4,000	3,606	394
Equipment	200	200	318	(118)
Other	8,800	5,300	5,095	205
Total city manager	265,500	266,200	269,915	(3,715)
City Assessor				
Personnel services	104,500	112,000	113,161	(1,161)
Operating supplies	4,600	-	4,582	(4,582)
Equipment	200	-	-	-
Other	1,900	-	2,410	(2,410)
Total City Assessor	111,200	112,000	120,153	(8,153)
City Attorney				
Professional services	210,000	220,000	236,925	(16,925)
Elections				
Personnel services	-	11,500	11,535	(35)
Contractual services	1,000	1,200	631	569
Operating supplies	4,000	1,000	1,206	(206)
Total Elections	5,000	13,700	13,372	328
Controller-Clerk-Treasurer				
Personnel services	494,900	445,900	416,443	29,457
Contractual services	13,000	10,000	26,707	(16,707)
Professional services	15,000	13,900	13,900	-
Operating supplies	26,500	23,000	21,960	1,040
Repairs and maintenance	38,000	32,800	33,639	(839)
Equipment	500	500	615	(115)
Other	16,700	19,600	19,091	509
Total Controller-Clerk-Treasurer	604,600	545,700	532,355	13,345

(continued)

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Other				
Personnel services	\$ 9,000	\$ 3,000	\$ -	\$ 3,000
Contractual services	25,000	24,500	22,976	1,524
Insurance premiums	141,000	151,000	137,548	13,452
	<u>175,000</u>	<u>178,500</u>	<u>160,524</u>	<u>17,976</u>
Total other				
	<u>1,371,300</u>	<u>1,336,100</u>	<u>1,333,244</u>	<u>2,856</u>
Total general government				
Public Safety				
General activity				
Personnel services	3,770,500	3,776,000	3,917,010	(141,010)
Contractual services	118,000	118,000	102,145	15,855
Operating supplies	76,000	70,900	74,295	(3,395)
Repairs and maintenance	9,000	5,000	8,385	(3,385)
Equipment	125,000	190,000	186,538	3,462
Other	30,500	29,000	24,045	4,955
	<u>4,129,000</u>	<u>4,188,900</u>	<u>4,312,418</u>	<u>(123,518)</u>
Total general activity				
State programs				
Training	5,800	5,800	8,198	(2,398)
	<u>4,134,800</u>	<u>4,194,700</u>	<u>4,320,616</u>	<u>(125,916)</u>
Total public safety				
Public Works				
City buildings				
Personnel services	184,800	196,000	198,922	(2,922)
Contractual services	464,100	430,600	406,035	24,565
Operating supplies	43,500	28,200	32,026	(3,826)
Repairs and maintenance	1,500	-	-	-
Equipment	30,000	6,000	8,500	(2,500)
Other	3,900	3,900	2,097	1,803
	<u>727,800</u>	<u>664,700</u>	<u>647,580</u>	<u>17,120</u>
Total city buildings				
Inspection				
Personnel services	100,600	97,800	98,937	(1,137)
Contractual services	13,000	22,300	17,204	5,096
Operating supplies	1,200	700	1,055	(355)
Equipment	5,000	-	849	(849)
	<u>119,800</u>	<u>120,800</u>	<u>118,045</u>	<u>2,755</u>
Total inspection				

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Engineering				
Personnel services	\$ 51,600	\$ 49,600	\$ 49,464	\$ 136
Contractual services	800	1,100	757	343
Operating supplies	800	800	555	245
Equipment	3,000	4,000	3,132	868
Other	200	200	170	30
	<u>56,400</u>	<u>55,700</u>	<u>54,078</u>	<u>1,622</u>
Total engineering				
Street lighting				
Contractual services	99,000	96,000	88,232	7,768
Repairs and maintenance	-	-	265	(265)
	<u>99,000</u>	<u>96,000</u>	<u>88,497</u>	<u>7,503</u>
Total street lighting				
Wealthy streetscape maintenance				
Personnel services	6,100	8,200	6,027	2,173
Contractual services	67,500	45,000	50,362	(5,362)
Operating supplies	11,000	11,000	7,845	3,155
	<u>84,600</u>	<u>64,200</u>	<u>64,234</u>	<u>(34)</u>
Total wealthy streetscape maintenance				
Waste collection				
Personnel services	144,600	143,500	144,399	(899)
Contractual services	108,000	110,000	98,215	11,785
Operating supplies	800	800	406	394
Equipment	150,000	120,000	138,177	(18,177)
	<u>403,400</u>	<u>374,300</u>	<u>381,197</u>	<u>(6,897)</u>
Total waste collection				
Lake restoration				
Contractual services	7,000	16,000	11,211	4,789
	<u>7,000</u>	<u>16,000</u>	<u>11,211</u>	<u>4,789</u>
Total lake restoration				
Tree maintenance and removal				
Personnel services	39,600	36,800	27,526	9,274
Contractual services	34,300	37,300	32,446	4,854
Operating Supplies	1,000	500	128	372
Equipment	40,000	15,000	7,986	7,014
	<u>114,900</u>	<u>89,600</u>	<u>68,086</u>	<u>21,514</u>
Total tree maintenance and removal				
Total public works	<u>1,612,900</u>	<u>1,481,300</u>	<u>1,432,928</u>	<u>48,372</u>

(continued)

CITY OF EAST GRAND RAPIDS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Culture and recreation				
Parks and recreation				
Personnel services	\$ 846,400	\$ 803,700	\$ 788,023	\$ 15,677
Contractual services	154,500	159,800	142,605	17,195
Joint facilities agreement	162,600	158,300	159,757	(1,457)
Operating supplies	47,400	48,700	46,429	2,271
Repairs and maintenance	14,800	16,100	15,735	365
Equipment	1,000	700	572	128
Other	20,100	16,200	14,736	1,464
Total parks and recreation	<u>1,246,800</u>	<u>1,203,500</u>	<u>1,167,857</u>	<u>35,643</u>
Grounds maintenance				
Personnel services	168,700	167,300	168,328	(1,028)
Contractual services	2,700	2,500	2,270	230
Operating supplies	21,500	21,100	20,609	491
Repairs and maintenance	76,900	72,500	69,101	3,399
Equipment	10,000	9,000	8,766	234
Other	200	100	136	(36)
Total grounds maintenance	<u>280,000</u>	<u>272,500</u>	<u>269,210</u>	<u>3,290</u>
Special events				
Personnel services	4,700	4,300	4,978	(678)
Contractual services	52,700	47,600	41,517	6,083
Operating supplies	53,200	50,900	63,878	(12,978)
Other	33,800	33,100	33,184	(84)
Total special events	<u>144,400</u>	<u>135,900</u>	<u>143,557</u>	<u>(7,657)</u>
Total culture and recreation	<u>1,671,200</u>	<u>1,611,900</u>	<u>1,580,624</u>	<u>31,276</u>
Capital outlay				
Commission	-	-	24,882	(24,882)
Manager	9,700	2,200	1,774	426
Assessor	-	-	50	(50)
Controller-Clerk-Treasurer	15,000	6,500	6,265	235
City buildings	41,500	14,100	12,797	1,303
Public safety				
General activity	67,900	54,889	59,603	(4,714)
Drug seizure program	43,200	-	24,650	(24,650)
Culture and recreation				
Parks	106,300	106,300	89,606	16,694
Other	15,000	5,000	4,600	400
Total capital outlay	<u>298,600</u>	<u>188,989</u>	<u>224,227</u>	<u>(35,238)</u>
Total expenditures	<u>\$ 9,119,200</u>	<u>\$ 8,857,989</u>	<u>\$ 8,928,895</u>	<u>\$ (70,906)</u>

CITY OF EAST GRAND RAPIDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2013

	Special Revenue		Debt Service		Capital Projects			Total
	Major Streets	Local Streets	Wealthy Pool	Streetscape	Streets and Utilities Building	Special Assessments		
Assets								
Cash and pooled investments	\$ 623,757	\$ 296,644	\$ 21,908	\$ -	\$ 48,138	\$ 5,320	\$ 995,767	
Investments	-	253,778	-	-	-	-	253,778	
Accounts receivable	3,992	-	-	-	-	-	3,992	
Special assessments receivable	-	-	-	-	-	45,640	45,640	
Due from other governments	79,581	29,977	-	-	-	-	109,558	
Inventory	8,848	8,848	-	-	-	-	17,696	
Prepaid items	925	921	-	-	-	-	1,846	
Total assets	\$ 717,103	\$ 590,168	\$ 21,908	\$ -	\$ 48,138	\$ 50,960	\$ 1,428,277	
Liabilities and fund balances								
Liabilities								
Accounts payable	\$ 11,308	\$ 4,025	\$ -	\$ -	\$ -	\$ -	\$ 15,333	
Due to other funds	2,905	2,905	-	-	-	-	5,810	
Accrued liabilities	3,814	3,814	-	-	-	-	7,628	
Deferred revenue	-	-	-	-	-	32,828	32,828	
Total liabilities	18,027	10,744	-	-	-	32,828	61,599	
Fund balances								
Nonspendable								
Inventory	8,848	8,848	-	-	-	-	17,696	
Prepays	925	921	-	-	-	-	1,846	
Restricted								
Streets	689,303	569,655	-	-	-	-	1,258,958	
Debt service	-	-	21,908	-	-	-	21,908	
Assigned	-	-	-	-	48,138	18,132	66,270	
Total fund balances	699,076	579,424	21,908	-	48,138	18,132	1,366,678	
Total liabilities and fund balances	\$ 717,103	\$ 590,168	\$ 21,908	\$ -	\$ 48,138	\$ 50,960	\$ 1,428,277	

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue		Debt Service		Capital Projects		Total
	Major Streets	Local Streets	Wealthy Pool	Streetscape	Streets and Utilities Building	Special Assessments	
Revenues							
Taxes	\$ -	\$ -	\$ 124,527	\$ -	\$ -	\$ -	\$ 124,527
Intergovernmental revenues							
Federal	-	3,510	-	-	-	-	3,510
State	548,036	240,802	-	-	-	-	788,838
Special assessments	-	-	-	-	-	15,093	15,093
Investment earnings	236	1,197	27	-	15	5,206	6,681
Total revenues	<u>548,272</u>	<u>245,509</u>	<u>124,554</u>	<u>-</u>	<u>15</u>	<u>20,299</u>	<u>938,649</u>
Expenditures							
Current							
Public works	805,468	828,016	-	-	-	-	1,633,484
Debt service							
Principal	-	-	97,000	205,000	-	-	302,000
Interest	-	-	27,347	73,138	-	-	100,485
Capital outlay	-	-	-	-	1,585	-	1,585
Total expenditures	<u>805,468</u>	<u>828,016</u>	<u>124,347</u>	<u>278,138</u>	<u>1,585</u>	<u>-</u>	<u>2,037,554</u>
Revenues over (under) expenditures	<u>(257,196)</u>	<u>(582,507)</u>	<u>207</u>	<u>(278,138)</u>	<u>(1,570)</u>	<u>20,299</u>	<u>(1,098,905)</u>
Other financing sources (uses)							
Transfers in	422,000	626,000	-	278,138	-	-	1,326,138
Transfers out	(278,138)	-	-	-	-	(19,000)	(297,138)
Total other financing sources (uses)	<u>143,862</u>	<u>626,000</u>	<u>-</u>	<u>278,138</u>	<u>-</u>	<u>(19,000)</u>	<u>1,029,000</u>
Net changes in fund balances	(113,334)	43,493	207	-	(1,570)	1,299	(69,905)
Fund balances, beginning of year	<u>812,410</u>	<u>535,931</u>	<u>21,701</u>	<u>-</u>	<u>49,708</u>	<u>16,833</u>	<u>1,436,583</u>
Fund balances, end of year	<u>\$ 699,076</u>	<u>\$ 579,424</u>	<u>\$ 21,908</u>	<u>\$ -</u>	<u>\$ 48,138</u>	<u>\$ 18,132</u>	<u>\$ 1,366,678</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenues				
State	\$ 446,648	\$ 480,500	\$ 548,036	\$ 67,536
Investment earnings	-	300	236	(64)
Total revenues	<u>446,648</u>	<u>480,800</u>	<u>548,272</u>	<u>67,472</u>
Expenditures				
Current				
Public works				
Street maintenance	396,100	410,700	411,199	(499)
Street construction	330,000	250,600	252,560	(1,960)
Street administration	93,600	92,300	91,645	655
Engineering	51,000	52,300	50,064	2,236
Total expenditures	<u>870,700</u>	<u>805,900</u>	<u>805,468</u>	<u>432</u>
Revenues over (under) expenditures	<u>(424,052)</u>	<u>(325,100)</u>	<u>(257,196)</u>	<u>67,904</u>
Other financing sources				
Transfers in	422,000	422,000	422,000	-
Transfers out	(276,000)	(278,200)	(278,138)	62
Total other financing sources (uses)	<u>146,000</u>	<u>143,800</u>	<u>143,862</u>	<u>62</u>
Net changes in fund balance	(2,052)	(181,300)	(113,334)	67,966
Fund balance, beginning of year	<u>812,410</u>	<u>812,410</u>	<u>812,410</u>	<u>-</u>
Fund balance, end of year	<u>\$ 810,358</u>	<u>\$ 631,110</u>	<u>\$ 699,076</u>	<u>\$ 67,966</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 3,510	\$ 3,510
State	169,825	200,000	240,802	40,802
Investment earnings	<u>1,500</u>	<u>1,000</u>	<u>1,197</u>	<u>197</u>
Total revenues	<u>171,325</u>	<u>201,000</u>	<u>245,509</u>	<u>44,509</u>
Expenditures				
Current				
Public works				
Street maintenance	546,900	500,400	484,768	15,632
Street construction	250,000	238,000	251,612	(13,612)
Street administration	<u>96,400</u>	<u>97,600</u>	<u>91,636</u>	<u>5,964</u>
Total expenditures	<u>893,300</u>	<u>836,000</u>	<u>828,016</u>	<u>7,984</u>
Revenues over (under) expenditures	(721,975)	(635,000)	(582,507)	52,493
Other financing source (uses)				
Transfers in	<u>626,000</u>	<u>626,000</u>	<u>626,000</u>	<u>-</u>
Net changes in fund balance	(95,975)	(9,000)	43,493	52,493
Fund balance, beginning of year	<u>535,931</u>	<u>535,931</u>	<u>535,931</u>	<u>-</u>
Fund balance, end of year	<u>\$ 439,956</u>	<u>\$ 526,931</u>	<u>\$ 579,424</u>	<u>\$ 52,493</u>

CITY OF EAST GRAND RAPIDS

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET POSITION

JUNE 30, 2013

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 82,911	\$ 14,932	\$ 97,843
Investments	663,327	328,267	991,594
Accounts receivable	-	66,580	66,580
Due from other funds	-	55,668	55,668
Prepaid and other assets	252	33,360	33,612
Inventory	<u>52,317</u>	<u>-</u>	<u>52,317</u>
Total current assets	<u>798,807</u>	<u>498,807</u>	<u>1,297,614</u>
Capital assets			
Capital assets being depreciated	3,751,115	-	3,751,115
Less accumulated depreciation	<u>(1,888,358)</u>	<u>-</u>	<u>(1,888,358)</u>
Net capital assets	<u>1,862,757</u>	<u>-</u>	<u>1,862,757</u>
Total assets	<u>2,661,564</u>	<u>498,807</u>	<u>3,160,371</u>
Liabilities			
Current liabilities			
Accounts payable	33,891	1,503	35,394
Due to other funds	1,881	-	1,881
Accrued liabilities	1,966	155,911	157,877
Compensated absences	<u>10,333</u>	<u>-</u>	<u>10,333</u>
Total liabilities	<u>48,071</u>	<u>157,414</u>	<u>205,485</u>
Net position			
Investment in capital assets, net of related debt	1,862,757	-	1,862,757
Unrestricted	<u>750,736</u>	<u>341,393</u>	<u>1,092,129</u>
Total net position	<u>\$ 2,613,493</u>	<u>\$ 341,393</u>	<u>\$ 2,954,886</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Operating revenue			
Charges for services	\$ 693,129	\$ 1,325,664	\$ 2,018,793
Operating expense			
Salaries and wages	166,988	-	166,988
Contracted services	24,034	295,202	319,236
Materials and supplies	244,528	-	244,528
Equipment	3,084	-	3,084
Claims	-	966,991	966,991
Administration	-	174,038	174,038
Depreciation	256,704	-	256,704
Total operating expense	<u>695,338</u>	<u>1,436,231</u>	<u>2,131,569</u>
Operating income (loss)	<u>(2,209)</u>	<u>(110,567)</u>	<u>(112,776)</u>
Non-operating revenue (expense)			
Gain on sale of fixed assets	87,537	-	87,537
Interest income	2,972	1,948	4,920
Total non-operating revenue (expense)	<u>90,509</u>	<u>1,948</u>	<u>92,457</u>
Changes in net position	88,300	(108,619)	(20,319)
Net position, beginning of year, as restated	<u>2,525,193</u>	<u>450,012</u>	<u>2,975,205</u>
Net position, end of year	<u>\$ 2,613,493</u>	<u>\$ 341,393</u>	<u>\$ 2,954,886</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from internal services provided	\$ 695,010	\$ 1,221,257	\$ 1,916,267
Payments to employees	(167,158)	-	(167,158)
Payments to suppliers	<u>(256,094)</u>	<u>(1,331,772)</u>	<u>(1,587,866)</u>
Net cash provided by (used in) operating activities	<u>271,758</u>	<u>(110,515)</u>	<u>161,243</u>
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	87,537	-	87,537
Acquisitions of capital assets	<u>(478,005)</u>	<u>-</u>	<u>(478,005)</u>
Net cash provided by (used in) capital and related financing activities	<u>(390,468)</u>	<u>-</u>	<u>(390,468)</u>
Cash flows from investing activities			
Net investment activity	(2,939)	(663)	(3,602)
Interest income	<u>2,972</u>	<u>1,948</u>	<u>4,920</u>
Net cash provided by (used in) investing activities	<u>33</u>	<u>1,285</u>	<u>1,318</u>
Net increase (decrease) in cash and pooled investments	(118,677)	(109,230)	(227,907)
Cash and pooled investments, beginning of year	<u>201,588</u>	<u>124,162</u>	<u>325,750</u>
Cash and pooled investments, end of year	<u>\$ 82,911</u>	<u>\$ 14,932</u>	<u>\$ 97,843</u>
Cash flows from operating activities			
Operating income (loss)	\$ (2,209)	\$ (110,567)	\$ (112,776)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	256,704	-	256,704
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	(48,739)	(48,739)
Due from other funds	-	(55,668)	(55,668)
Prepaid and other assets	122	(5,854)	(5,732)
Inventory	(8,505)	-	(8,505)
Accounts payable	23,935	(349)	23,586
Due to other funds	1,881	-	1,881
Accrued liabilities	(391)	110,662	110,271
Compensated absences	<u>221</u>	<u>-</u>	<u>221</u>
Net cash provided by (used in) operating activities	<u>\$ 271,758</u>	<u>\$ (110,515)</u>	<u>\$ 161,243</u>

Continuing Disclosure Filing

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

Fiscal Year Ended
June 30, 2013

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

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

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

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

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

STATE INFORMATION REPOSITORY

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

MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET

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

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

CUSIP Numbers (attach additional sheet if necessary):

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

Number of pages of attached information:

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

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

- CAFR: (a) includes does not include Annual Financial Information
- (b) Audited? Yes No
- Annual Financial Information: Audited? Yes No
- Operating Data

Fiscal Period Covered: Fiscal Years Ended June 30, 2013

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

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

Karen A. Mushong

Signature: _____

Name: Karen A. Mushong Title: Finance Director/Treasurer

Employer: City of East Grand Rapids, Michigan

Address: 750 Lakeside Drive, SE

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

Voice Telephone Number: (616) 949-2110

Population

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

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

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

**City of East Grand Rapids
Total Taxable Value
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

<u>Assessed Value as of December 31</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City's Fiscal Years Ended or Ending June 30</u>	<u>Ad Valorem Taxable Value</u>	<u>Percent Increase Over Prior Year</u>
2008	2009	2010	\$534,734,545	10.10
2009	2010	2011	527,292,789	(1.39)
2010	2011	2012	534,081,653	1.29
2011	2012	2013	545,263,594	2.09
2012	2013	2014	565,378,873	3.69

Per Capita Taxable Value for the Fiscal Year Ending June 30, 2014 (1).....\$52,868.79

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

Source: City of East Grand Rapids

**City of East Grand Rapids
Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

<u>Use</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Commercial	\$ 24,986,019	\$ 25,275,280	\$ 25,014,349	\$ 25,954,655	\$26,263,474
Utility	2,370,528	2,363,416	2,681,500	2,908,100	2,888,300
Residential	<u>507,377,998</u>	<u>499,654,093</u>	<u>506,385,804</u>	<u>516,400,839</u>	<u>536,227,099</u>
	<u>\$ 534,734,545</u>	<u>\$ 527,292,789</u>	<u>\$ 534,081,653</u>	<u>\$ 545,263,594</u>	<u>\$ 565,378,873</u>
<u>Class</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Real Property	\$ 528,846,117	\$ 521,434,773	\$ 527,994,753	\$ 538,022,794	\$558,142,573
Personal Property	<u>5,888,428</u>	<u>5,858,016</u>	<u>6,086,900</u>	<u>7,240,800</u>	<u>7,236,300</u>
	<u>\$ 534,734,545</u>	<u>\$ 527,292,789</u>	<u>\$ 534,081,653</u>	<u>\$ 545,263,594</u>	<u>\$ 565,378,873</u>

Source: City of East Grand Rapids

**City of East Grand Rapids
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem SEV	Percent Increase Over Prior Year
2007	2008	2009	\$638,029,800	(.06)
2008	2009	2010	613,188,100	(3.90)
2009	2010	2011	595,297,800	(2.90)
2010	2011	2012	605,889,000	1.78
2011	2012	2013	607,890,800	.03
2012	2013	2014	645,387,600	6.17

Per Capita SEV for the Fiscal Year Ending June 30, 2014(1) \$60,350.44

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

Source: City of East Grand Rapids

**City of East Grand Rapids
SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

Use	Fiscal Years Ended or Ending June 30				
	2010	2011	2012	2013	2014
Commercial	\$ 28,892,300	\$ 29,220,600	\$ 28,159,900	\$ 28,661,000	\$ 29,140,200
Residential	581,701,100	563,623,200	575,047,600	576,321,700	613,359,100
Utility.....	<u>2,594,700</u>	<u>2,454,000</u>	<u>2,681,500</u>	<u>2,908,100</u>	<u>2,888,300</u>
	<u>\$ 613,188,100</u>	<u>\$ 595,297,800</u>	<u>\$ 605,889,000</u>	<u>\$ 607,890,800</u>	<u>\$ 645,387,600</u>

Class	Fiscal Years Ended or Ending June 30				
	2010	2011	2012	2013	2014
Real Property	\$ 607,075,500	\$ 589,349,200	\$ 599,802,100	\$ 600,650,000	\$ 638,151,300
Personal Property.....	<u>6,112,600</u>	<u>5,948,600</u>	<u>6,086,900</u>	<u>7,240,800</u>	<u>7,236,300</u>
	<u>\$ 613,188,100</u>	<u>\$ 595,297,800</u>	<u>\$ 605,889,000</u>	<u>\$ 607,890,800</u>	<u>\$ 645,387,600</u>

Source: City of East Grand Rapids

**City of East Grand Rapids
Maximum Property Tax Rates
Fiscal Year Ending June 30, 2014**

Millage Classification	Millage Authorized	Applicable Millage Reduction Fraction (1)	Maximum Allowable Millage
Operating	20.0000	0.6543	13.4586

(1) Cumulative.

Source: City of East Grand Rapids

**City of East Grand Rapids
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

Levy July 1	Fiscal Years Ended or Ending June 30	Operating
2009	2010	13.5195
2010	2011	13.5195
2011	2012	13.5195
2012	2013	13.5195
2013	2014	13.4586

Source: City of East Grand Rapids

**City of East Grand Rapids
Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

<u>Governmental Unit</u>	Fiscal Years Ended or Ending June 30				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
City of East Grand Rapids.....	\$13.5195	\$ 13.5195	\$ 13.5195	\$ 13.5195	\$ 13.4586
City of East Grand Rapids Debt.....	1.1500	1.2200	1.2100	1.1328	0.7701
County of Kent.....	5.3940	5.3940	5.3940	5.3940	5.3940
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
East Grand Rapids Public Schools	9.7881	9.7881	9.7699	9.7881	9.7798
Kent County Intermediate School District	4.6903	4.6903	4.6903	4.6903	4.6903
Grand Rapids Community College	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Partnership.....	1.1200	1.1200	1.1200	1.4100	1.4700
District Library.....	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$44.3284</u>	<u>\$ 44.3984</u>	<u>\$ 44.3702</u>	<u>\$ 44.6012</u>	<u>\$ 44.2293</u>

**City of East Grand Rapids
Non-Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2009 Through 2013**

<u>Governmental Unit</u>	Fiscal Years Ended or Ending June 30				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
City of East Grand Rapids.....	\$13.5195	\$ 13.5195	\$ 13.5195	\$ 13.5195	\$ 13.4586
City of East Grand Rapids Debt.....	1.1500	1.2200	1.2100	1.1328	0.7701
County of Kent.....	5.3940	5.3940	5.3940	5.3940	5.3940
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
East Grand Rapids Public Schools	27.6550	27.6550	27.7699	27.7881	27.6880
Kent County Intermediate School District	4.6903	4.6903	4.6903	4.6903	4.6903
Grand Rapids Community College	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Partnership.....	1.1200	1.1200	1.1200	1.4100	1.4700
District Library.....	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$62.1953</u>	<u>\$62.2653</u>	<u>\$62.3702</u>	<u>\$ 62.6012</u>	<u>\$ 62.1375</u>

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

Source: City of East Grand Rapids

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

July 1 <u>Levy</u>	Fiscal Years Ended or Ending <u>June 30</u>	City <u>Tax Levy(1)</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2008	2009	7,106,947	6,885,596	96.89
2009	2010	7,229,323	7,056,471	97.61
2010	2011	7,128,714	6,995,064	98.13
2011	2012	7,220,000	7,100,309	98.34
2012	2013	7,371,670	7,262,651	98.52

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

Source: City of East Grand Rapids

**City of East Grand Rapids
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2014**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	<u>Percent of Total (1)</u>
Jade Pig Ventures EGR LLC.....	Office/Retail	\$6,243,000	1.10%
Spectrum Health Hospitals.....	Hospital/Office	3,939,672	0.71
Lakewood Hills LLC	Apartments	1,864,209	0.33
Geenen, David ET AL.	Shopping Center	1,852,248	0.33
Consumers Energy Co	Utility	1,839,400	0.33
Bagley Investors Group, LLC.....	Residential Condominiums.....	1,669,500	0.30
Bissell, Mark J & Catherine	Residential Home	1,522,682	0.27
Salmon, Alan M.....	Residential Home	1,325,881	0.23
Wege, Peter M Trust.....	Residential Home.....	1,257,479	0.22
Jade Pig Ventures LLC	Vacant Commercial Land.....	<u>1,213,644</u>	<u>0.21</u>
		<u>\$22,727,715</u>	<u>4.02%</u>

(1) Based on \$565,378,873 which is the City's Total Taxable Value for its fiscal year ending June 30, 2014.

Source: City of East Grand Rapids

**City of East Grand Rapids
Revenues From the State of Michigan
Constitutional Sales Tax
Fiscal Years Ended or Ending June 30, 2010 Through 2014**

	Fiscal Year Ended or Ending June 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 (1)</u>
Total Revenues.....	<u>\$802,316</u>	<u>\$795,642</u>	<u>\$765,040</u>	<u>\$780,743</u>	<u>\$770,000</u>

(1) Budgeted.

Source: City of East Grand Rapids

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of September 2, 2012.

Debt Limit (1)	\$ 60,789,800
Debt Outstanding (2).....	\$ 12,076,359
Less: Exempt Debt (3)	<u>2,203,359</u>
Legal Debt Margin.....	<u>\$50,916,800</u>

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

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

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

Debt Statement

The following table reflects a breakdown of the City’s direct and overlapping debt as of September 2, 2012. Direct debt that is shown as self-supporting is paid from sources other than the City’s general fund.

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

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated September 30, 2003 (Limited Tax).....	\$ 343,359	\$ 343,359	\$ -0-
Subtotal.....	<u>\$ 343,359</u>	<u>\$ 343,359</u>	<u>\$ -0-</u>
Michigan Transportation Fund Bonds:			
Dated April 1, 2005 (Limited Tax).....	\$ 1,860,000	\$ 1,860,000	\$ -0-
Subtotal.....	<u>\$ 1,860,000</u>	<u>\$ 1,860,000</u>	<u>\$ -0-</u>
General Obligation Bonds:			
Dated October 11, 2012 (UT).....	\$ 8,400,000	\$ -0-	\$ 8,400,000
Dated February 14, 2012 (UT)	1,243,000	-0-	1,243,000
Dated February 1, 2002 (Unlimited Tax).....	<u>230,000</u>	<u>-0-</u>	<u>230,000</u>
Subtotal.....	<u>\$ 9,873,000</u>	<u>\$ -0-</u>	<u>\$ 9,873,000</u>
Total Direct Debt.....	<u>\$ 12,076,359</u>	<u>\$ 2,203,359</u>	<u>\$ 9,873,000</u>

Per Capita Net Direct Debt (1) \$923.23
 Percent of Net Direct Debt to Total SEV (2) 1.63%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share as a Percent of Gross</u>	<u>Net</u>
East Grand Rapids Public Schools	\$ 70,834,107	93.86%	\$ 66,484,893
Kent County.....	180,110,000	2.65	4,772,915
Grand Rapids Community College.....	<u>71,580,000</u>	2.57	<u>1,839,606</u>
Total Overlapping Debt.....	<u>\$ 322,524,107</u>		<u>\$ 73,097,414</u>
Total Net Direct and Overlapping Debt.....	<u>\$ 334,600,466</u>		<u>\$ 82,970,414</u>

Per Capita Net Overlapping Debt (1)..... \$6,835.37
 Percent of Net Overlapping Debt to Total SEV (2) 12.02%

Per Capita Net Direct and Overlapping Debt (1)..... \$7,758.59
 Percent of Net Direct and Overlapping Debt to Total SEV (2) 13.65%

(1) Based on the City’s 2010 Census of 10,694.
 (2) Based on \$607,890,800 which is the City’s SEV for the fiscal year ending June 30, 2013. See “CITY TAX AND LIMITATIONS - Property Valuations”.
 (3) Overlapping debt is the portion of another taxing unit’s debt for which property taxpayers of the City are liable in addition to debt issued by the City.
 Source: Municipal Advisory Council of Michigan and the City of East Grand Rapids.

INTERNAL CONTROL AND COMPLIANCE



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

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

September 27, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Urodevelo Haefner LLC