



**CITY OF GRANDVILLE
GRANDVILLE, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010



CITY OF GRANDVILLE, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	5-12
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17-18
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	21
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenue, Expenses and Changes in Fund Net Assets – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27-28
Statement of Fiduciary Assets and Liabilities – Agency Funds	29
Combining Statement of Net Assets – Discretely Presented Component Units	30
Combining Statement of Activities – Discretely Presented Component Units	31
Notes to Financial Statements	33-51
Required Supplementary Information – Schedules of Funding Progress	54
Combining and Individual Fund Financial Statements	
General Fund:	
Detailed Schedule of Revenue, Expenditures and Changes in Fund Balance	56-57
Nonmajor Governmental Funds:	
Combining Balance Sheet	58-59
Combining Statement of Revenue, Expenditures and Changes in Fund Balances	60-61
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Nonmajor Special Revenue Funds	62-65

(continued)

CITY OF GRANDVILLE, MICHIGAN

TABLE OF CONTENTS (CONCLUDED)

	<u>PAGE</u>
Combining and Individual Fund Financial Statements (Concluded)	
Fiduciary Funds:	
Combining Statement of Assets and Liabilities – Agency Funds	66
Component Unit – Downtown Development Authority:	
Balance Sheet	67
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Component Units on the Statement of Net Assets	68
Statement of Revenue, Expenses and Changes in Fund Balance	69
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	70
Component Unit – Brownfield Redevelopment Authority:	
Balance Sheet	71
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Component Units on the Statement of Net Assets	72
Statement of Revenue, Expenses and Changes in Fund Balance	73
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	74
Internal Control and Compliance	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77-79

INDEPENDENT AUDITORS' REPORT

November 17, 2010

Honorable Mayor and
Members of the City Council
Grandville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Grandville, Michigan* (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Grandville, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grandville, Michigan as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, on our consideration of the City of Grandville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5-12 and the Schedules of Funding Progress on page 54 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grandville's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the City of Grandville's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 14 to the financial statements, beginning equity was restated for certain opinion units in order to correct errors in the prior year presentation.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

As management of the City of Grandville (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Grandville for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

2010 was a year of significant activity at the City, including:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$40,974,661 (*net assets*).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,380,535, an increase of \$181,355 from the prior year.
- At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,213,575 or 26% of general fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 16-18 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 20-24 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operations, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 25-28 of this report.

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

The basic fiduciary fund financial statements can be found on pages 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-51 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and required pension and other postemployment benefits information. Required supplementary information regarding the pension and other postemployment benefits information can be found on page 54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and continuing disclosure information are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 56-74 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Grandville, assets exceeded liabilities by \$40,974,661 at the close of the most recent fiscal year.

City of Grandville's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 6,998,999	\$ 8,319,490	\$ 7,103,993	\$ 9,075,634	\$ 14,102,992	\$ 17,395,124
Capital assets, net	17,392,655	20,036,836	19,494,487	19,489,529	36,887,142	39,526,365
Total assets	24,391,654	28,356,326	26,598,480	28,565,163	50,990,134	56,921,489
Liabilities						
Long-term liabilities	6,341,131	6,661,720	2,500,279	2,839,802	8,841,410	9,501,522
Other liabilities	552,678	2,022,966	621,385	1,803,797	1,174,063	3,826,763
Total liabilities	6,893,809	8,684,686	3,121,664	4,643,599	10,015,473	13,328,285
Net assets						
Invested in capital assets, net of related debt	11,791,826	14,117,053	17,098,964	16,844,225	28,890,790	30,961,278
Restricted	1,529,432	1,362,859	388,673	804,500	1,918,105	2,167,359
Unrestricted	4,176,587	4,191,728	5,989,179	6,272,839	10,165,766	10,464,567
Total net assets	\$17,497,845	\$ 19,671,640	\$ 23,476,816	\$ 23,921,564	\$ 40,974,661	\$ 43,593,204

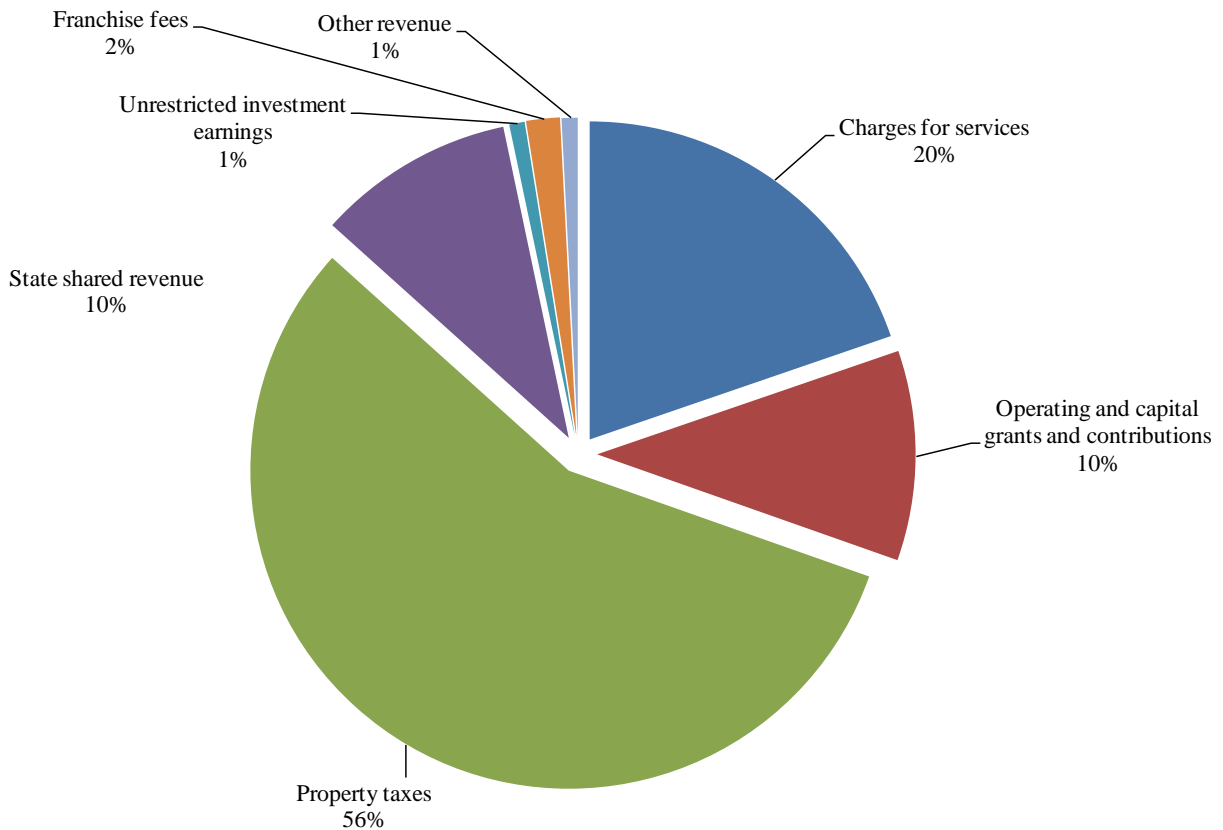
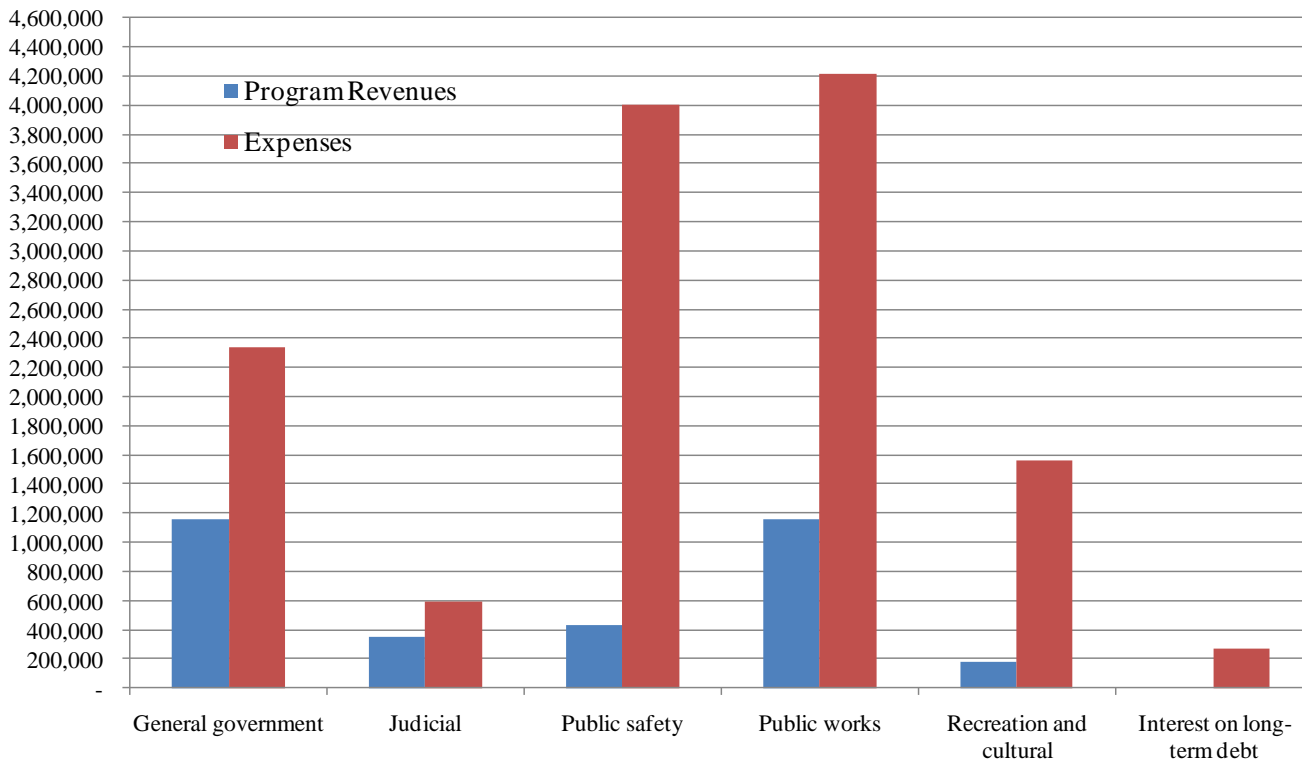
By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens;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

Certain net assets of governmental activities at year-end have been restricted, primarily by funding sources for major and local streets and debt service purposes.. Of the net asset balance at year end, 71% is invested in capital assets net of related debt, 4% is restricted for other purposes and 25% is unrestricted and available for general City operations.

City of Grandville's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 2,125,700	\$ 2,064,761	\$ 6,192,864	\$ 6,379,941	\$ 8,318,564	\$ 8,444,702
Operating grants and contributions	1,105,824	1,138,459	63,919	156,624	1,169,743	1,295,083
Capital grants and contributions	43,680	45,322	-	-	43,680	45,322
General revenues:						
Property taxes	6,062,558	6,151,351	-	-	6,062,558	6,151,351
State shared revenue	1,080,343	1,214,687	-	-	1,080,343	1,214,687
Unrestricted investment earnings	84,463	189,243	-	-	84,463	189,243
Franchise fees	183,883	154,286	-	-	183,883	154,286
Other revenue	87,704	16,455	-	-	87,704	16,455
Total revenues	10,774,155	10,974,564	6,256,783	6,536,565	17,030,938	17,511,129
Expenses						
General government	2,339,888	2,394,279	-	-	2,339,888	2,394,279
Judicial	596,153	613,878	-	-	596,153	613,878
Public safety	3,999,372	4,274,364	-	-	3,999,372	4,274,364
Public works	4,209,210	5,872,774	-	-	4,209,210	5,872,774
Recreation and cultural	1,560,440	1,838,799	-	-	1,560,440	1,838,799
Interest on long-term debt	267,972	283,603	-	-	267,972	283,603
Sewer	-	-	4,862,812	4,882,688	4,862,812	4,882,688
Water	-	-	1,813,634	1,724,063	1,813,634	1,724,063
Total expenses	12,973,035	15,277,697	6,676,446	6,606,751	19,649,481	21,884,448
Change in net assets before transfers	(2,198,880)	(4,303,133)	(419,663)	(70,186)	(2,618,543)	(4,373,319)
Transfers	25,085	-	(25,085)	-	-	-
Change in net assets	(2,173,795)	(4,303,133)	(444,748)	(70,186)	(2,618,543)	(4,373,319)
Net assets, beginning of year, as restated	19,671,640	23,974,773	23,921,564	23,991,750	43,593,204	47,966,523
Net assets, end of year	\$ 17,497,845	\$ 19,671,640	\$ 23,476,816	\$ 23,921,564	\$ 40,974,661	\$ 43,593,204

Governmental activities. Governmental activities decreased the City’s net assets by \$2,173,795. This is primarily due to depreciation expense on capitalized assets exceeding current year capital asset additions.



Business-type activities. Business-type activities decreased the City's net assets by \$444,748. The key elements of this decrease were decreased usage from customer communities and increased usage from Grandville customers. Also, there were inflationary increases in expenditures without any rate increases.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Grandville's governmental funds reported combined ending fund balance of \$4,380,535, an increase of \$181,355 compared with the prior year. This increase was mainly related to employee positions that were left vacant and a transfer to general fund of accumulated special assessment interest.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,213,575 while total fund balance reached \$2,878,964. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 26 percent of total general fund expenditures and transfers out, while total fund balance represents 33 percent of that same amount.

The fund balance of the City of Grandville's general fund increased by \$138,072 during the current fiscal year.

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$1,523,996 and \$4,499,356, respectively. The total changes in net assets for these funds were a decrease of \$181,984 and \$262,764, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Grandville's business-type activities.

General Fund Budgetary Highlights

- The general fund budget was amended by City Commission resolution two times during the fiscal year ended June 30, 2010. The first budget amendment provided mid-year budget cuts, made to off-set the projected decrease of 11% in State-shared revenue.
- Variances between the original and final amended budgets were relatively minor.
- Intergovernmental revenue fell short of the final amended budget by approximately \$252,000. This was due to a budgeted reimbursement from drug forfeiture funds of \$172,000 for the purchase of a records management system. The system was not purchased, so there was no reimbursement to offset the expenditure. Another significant factor was state shared revenue which was under budget by approximately \$83,000.
- Attorney expenditures in the general government function exceeded the final amended budget by approximately \$117,000 due to a significant increase in Michigan Tax Tribunal (MTT)/Board of Review (BOR) cases.

- General administration expenditures in the general government function were less than the final amended budget by approximately \$79,000. This is a result of lower maintenance expenditures in both the administrative building and for administrative computer repair and purchases.
- Police expenditures in the public safety function were approximately \$185,000 under budget primarily due to the police records management system which was budgeted for \$172,000 and not purchased in this fiscal year. See related variance in intergovernmental revenue described above.
- Parks and recreation expenditures in the recreation and culture function were approximately \$120,000 under budget due to decreased expenditures in the summer recreation program, utility costs, and contractual services.

Capital Asset and Debt Administration

Capital assets. The City of Grandville’s investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$36,887,142 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

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

- Purchase of several vehicles and trucks for various departments
- Various resurfacing projects related to major and local streets
- Engineering costs related to the upcoming cleanwater system plan renovation
- Painting of the water tank

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,738,397	\$ 1,738,397	\$ 15,000	\$ 15,000	\$ 1,753,397	\$ 1,753,397
Construction in progress	-	175,393	402,816	605,412	402,816	780,805
Depreciable assets	15,654,258	18,123,046	19,076,671	18,869,117	34,730,929	36,992,163
Total	\$17,392,655	\$20,036,836	\$19,494,487	\$19,489,529	\$36,887,142	\$39,526,365

Additional information on the City of Grandville’s capital assets can be found in Note 7 on pages 44-46 of this report.

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

City of Grandville’s Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$5,690,000	\$6,020,000	\$ 2,500,000	\$ 2,860,000	\$8,190,000	\$ 8,880,000
* Other obligations	651,131	641,720	279	(20,198)	651,410	621,522
Total	\$6,341,131	\$ 6,661,720	\$ 2,500,279	\$ 2,839,802	\$ 8,841,410	\$ 9,501,522

The City’s total debt decreased by \$660,112.

*Additional information on the City of Grandville long-term obligations can be found in Note 8 on pages 46 and 47 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following factors were considered in preparing the City’s budget for the 2010-11 fiscal year:

- Millage rate increase of .7 mills to 9.154 mills. Property tax revenue still decreased by .8% even after the millage rate increase.
- Pay freezes and required health insurance contributions for all non-union employees.
- Lower full-time equivalents (FTEs) for public works and in the assessing department due to employee positions that were left vacant.
- No capital improvements budgeted other than those funded through grant awards.
- Commodity rates for water and sewer funds remained unchanged.
- Sewer ready-to-serve charges were increased from \$3.05 to \$7.80 per quarter to pay for the additional bond interest and increased charges from the City of Wyoming.

Requests for Information

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

BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

June 30, 2010

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Assets				
Pooled cash and investments	\$ 4,971,272	\$ 5,040,714	\$ 10,011,986	\$ 2,359,953
Restricted cash and investments	642,990	388,673	1,031,663	-
Receivables, net	547,606	1,608,464	2,156,070	6,507
Land held for sale	-	-	-	70,000
Net pension asset	746,607	-	746,607	-
Net other postemployment benefits asset	14,440	-	14,440	-
Deferred bond issuance costs, net	76,084	66,142	142,226	-
Capital assets not being depreciated	1,738,397	417,816	2,156,213	264,567
Capital assets being depreciated, net	15,654,258	19,076,671	34,730,929	104,218
Total assets	24,391,654	26,598,480	50,990,134	2,805,245
Liabilities				
Accounts payable and accrued liabilities	552,678	621,385	1,174,063	23,464
Long-term debt:				
Due in one year	960,067	450,863	1,410,930	100,174
Due in more than one year	5,381,064	2,049,416	7,430,480	899,826
Total liabilities	6,893,809	3,121,664	10,015,473	1,023,464
Net assets				
Invested in capital assets, net of related debt	11,791,826	17,098,964	28,890,790	368,785
Restricted for:				
Public works	938,961	-	938,961	-
Debt service	590,471	388,673	979,144	-
Unrestricted	4,176,587	5,989,179	10,165,766	1,412,996
Total net assets	\$ 17,497,845	\$ 23,476,816	\$ 40,974,661	\$ 1,781,781

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 2,339,888	\$ 1,143,946	\$ 17,309	\$ -	\$ (1,178,633)
Judicial	596,153	298,995	54,906	-	(242,252)
Public safety	3,999,372	377,538	50,976	-	(3,570,858)
Public works	4,209,210	127,359	982,633	43,680	(3,055,538)
Recreation and cultural	1,560,440	177,862	-	-	(1,382,578)
Interest on long-term debt	267,972	-	-	-	(267,972)
Total general revenue and transfers	12,973,035	2,125,700	1,105,824	43,680	(9,697,831)
Business-type activities:					
Sewer	4,862,812	4,569,022	51,026	-	(242,764)
Water	1,813,634	1,623,842	12,893	-	(176,899)
Total business-type activities	6,676,446	6,192,864	63,919	-	(419,663)
Total primary government	\$ 19,649,481	\$ 8,318,564	\$ 1,169,743	\$ 43,680	\$ (10,117,494)
Component unit					
Downtown Development Authority	\$ 165,389	\$ 1,829	\$ -	\$ -	\$ (163,560)
Brownfield Redevelopment Authority	-	-	-	-	-
Total component unit	\$ 165,389	\$ 1,829	\$ -	\$ -	\$ (163,560)

(continued)

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2010

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (9,697,831)	\$ (419,663)	\$ (10,117,494)	\$ (163,560)
General revenue:				
Property taxes	6,062,558	-	6,062,558	313,832
State shared revenue	1,080,343	-	1,080,343	-
Unrestricted investment earnings	84,463	-	84,463	24,043
Franchise fees	183,883	-	183,883	-
Other revenue	87,704	-	87,704	162
Transfers	25,085	(25,085)	-	-
Total general revenue and transfers	7,524,036	(25,085)	7,498,951	338,037
Change in net assets	(2,173,795)	(444,748)	(2,618,543)	174,477
Net assets, beginning of year, as restated	19,671,640	23,921,564	43,593,204	1,607,304
Net assets, end of year	\$ 17,497,845	\$ 23,476,816	\$ 40,974,661	\$ 1,781,781

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

FUND FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Pooled cash and investments	\$ 3,016,644	\$ 734,974	\$ 3,751,618
Restricted cash and investments	-	642,990	642,990
Accounts receivable	104,816	-	104,816
Special assessments receivable	-	84,333	84,333
Interest receivable	8,202	2,071	10,273
Due from other governments	193,186	151,785	344,971
	<hr/>	<hr/>	<hr/>
Total assets	\$ 3,322,848	\$ 1,616,153	\$ 4,939,001
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Accounts payable	\$ 282,960	\$ 12,794	\$ 295,754
Accrued and other liabilities	160,924	17,457	178,381
Deferred revenue	-	84,331	84,331
	<hr/>	<hr/>	<hr/>
Total liabilities	443,884	114,582	558,466
	<hr/>	<hr/>	<hr/>
Fund balances			
Reserved for:			
Cemetery	462,115	-	462,115
Drug forfeitures	203,274	-	203,274
Debt service	-	642,990	642,990
Unreserved:			
Designated for postemployment benefits	99,320	-	99,320
Undesignated, reported in nonmajor:			
Special revenue funds	-	854,632	854,632
Debt service funds	-	3,949	3,949
Undesignated	2,114,255	-	2,114,255
	<hr/>	<hr/>	<hr/>
Total fund balances	2,878,964	1,501,571	4,380,535
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 3,322,848	\$ 1,616,153	\$ 4,939,001
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to the Net Assets of Governmental
Activities on the Statement of Net Assets
June 30, 2010

Fund balances - total governmental funds \$ 4,380,535

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

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

Add - capital assets not being depreciated	1,738,397
Add - capital assets being depreciated, net	14,810,788

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

Add - net pension asset	746,607
Add - net other postemployment benefits asset	14,440
Add - deferred special assessments receivable	84,331

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

Add - net assets of governmental activities accounted for in internal service funds	2,037,198
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add - unamortized bond issuance costs	76,084
Deduct - bonds and notes payable	(5,690,000)
Deduct - unamortized premium on bonds payable	(75,125)
Add - unamortized deferred loss on bond refunding	164,296
Deduct - accrued interest payable on long-term debt	(56,468)
Deduct - compensated absences	(733,238)

Net assets of governmental activities	<u><u>\$ 17,497,845</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,479,495	\$ 583,063	\$ 6,062,558
Licenses and permits	159,166	-	159,166
Intergovernmental	1,251,088	978,759	2,229,847
Fines and forfeitures	722,054	-	722,054
Charges for services	731,102	36,214	767,316
Interest income	47,050	25,412	72,462
Rental income	7,745	456,265	464,010
Cable revenue	183,883	-	183,883
Other revenue	134,873	-	134,873
	<hr/>	<hr/>	<hr/>
Total revenue	8,716,456	2,079,713	10,796,169
Expenditures			
Current:			
General government	2,322,729	-	2,322,729
Judicial	550,282	-	550,282
Public safety	3,880,272	-	3,880,272
Public works	410,727	1,446,457	1,857,184
Recreation and culture	1,442,374	-	1,442,374
Debt service:			
Principal	-	330,000	330,000
Interest	-	257,058	257,058
	<hr/>	<hr/>	<hr/>
Total expenditures	8,606,384	2,033,515	10,639,899
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	110,072	46,198	156,270
Other financing sources (uses)			
Transfers in	28,000	171,386	199,386
Transfers out	-	(174,301)	(174,301)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	28,000	(2,915)	25,085
	<hr/>	<hr/>	<hr/>
Net change in fund balances	138,072	43,283	181,355
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	2,740,892	1,458,288	4,199,180
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 2,878,964	\$ 1,501,571	\$ 4,380,535
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ 181,355

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

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

Add - capital outlay	74,954
Deduct - depreciation expense	(2,622,030)

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

Deduct - change in deferred special assessments receivable	(34,015)
Add - principal payments on long-term debt	330,000

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

Add - change in the accrual for interest payable on long-term debt	5,204
Add - amortization of bond premium	9,306
Deduct - amortization of deferred loss on bond refunding	(20,352)
Deduct - amortization of deferred bond issuance costs	(5,072)
Add - change in the accrual for compensated absences	2,702
Add - change in the net pension asset	7,827
Add - change in the net other postemployment benefits asset	5,273

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

Deduct - loss from governmental activities in internal service funds	(108,947)
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Change in net assets of governmental activities	\$ (2,173,795)
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN

Statement of Revenue, Expenditures

and Changes in Fund Balance

Budget and Actual

General Fund

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,569,001	\$ 5,569,001	\$ 5,479,495	\$ (89,506)
Licenses and permits	144,150	144,150	159,166	15,016
Intergovernmental	1,503,217	1,503,217	1,251,088	(252,129)
Fines and forfeitures	638,750	638,750	722,054	83,304
Charges for services	730,451	730,451	731,102	651
Interest income	52,000	52,000	47,050	(4,950)
Rental income	4,000	4,000	7,745	3,745
Cable revenue	120,000	120,000	183,883	63,883
Other revenue	45,896	45,896	134,873	88,977
Total revenue	8,807,465	8,807,465	8,716,456	(91,009)
Expenditures				
Current:				
General government	2,162,947	2,313,047	2,322,729	9,682
Judicial	603,300	603,300	550,282	(53,018)
Public safety	4,183,364	4,110,464	3,880,272	(230,192)
Public works	458,209	458,209	410,727	(47,482)
Recreation and culture	1,724,815	1,643,815	1,442,374	(201,441)
Total expenditures	9,132,635	9,128,835	8,606,384	(522,451)
Revenue over (under) expenditures	(325,170)	(321,370)	110,072	431,442
Other financing sources				
Transfers in	28,000	28,000	28,000	-
Net change in fund balances	(297,170)	(293,370)	138,072	431,442
Fund balances, beginning of year	2,740,892	2,740,892	2,740,892	-
Fund balances, end of year	\$ 2,443,722	\$ 2,447,522	\$ 2,878,964	\$ 431,442

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

CITY OF GRANDVILLE, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Activities</u>
				<u>Internal</u>
				<u>Service</u>
				<u>Fund</u>
Assets				
Current assets:				
Pooled cash and investments	\$ 1,357,377	\$ 3,683,337	\$ 5,040,714	\$ 1,219,654
Restricted cash and investments	-	388,673	388,673	-
Accounts receivable	433,455	1,161,689	1,595,144	-
Interest receivable	3,607	9,713	13,320	3,213
Total current assets	<u>1,794,439</u>	<u>5,243,412</u>	<u>7,037,851</u>	<u>1,222,867</u>
Noncurrent assets:				
Deferred bond issuance costs	-	66,142	66,142	-
Capital assets not being depreciated	23,093	394,723	417,816	-
Capital assets being depreciated, net	8,552,832	10,523,839	19,076,671	843,470
Total noncurrent assets	<u>8,575,925</u>	<u>10,984,704</u>	<u>19,560,629</u>	<u>843,470</u>
Total assets	<u>10,370,364</u>	<u>16,228,116</u>	<u>26,598,480</u>	<u>2,066,337</u>
Liabilities				
Current liabilities:				
Accounts payable	234,422	270,067	504,489	17,323
Accrued liabilities	10,739	106,157	116,896	4,752
Compensated absences (all current)	25,282	79,474	104,756	7,064
Current portion of bonds payable	-	346,107	346,107	-
Total current liabilities	<u>270,443</u>	<u>801,805</u>	<u>1,072,248</u>	<u>29,139</u>
Noncurrent liabilities:				
Bonds payable, net of current portion	-	2,049,416	2,049,416	-
Total liabilities	<u>270,443</u>	<u>2,851,221</u>	<u>3,121,664</u>	<u>29,139</u>
Net assets				
Invested in capital assets, net of related debt	8,575,925	8,523,039	17,098,964	843,470
Restricted for debt service	-	388,673	388,673	-
Unrestricted	<u>1,523,996</u>	<u>4,465,183</u>	<u>5,989,179</u>	<u>1,193,728</u>
Total net assets	<u>\$ 10,099,921</u>	<u>\$ 13,376,895</u>	<u>\$ 23,476,816</u>	<u>\$ 2,037,198</u>

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u> <u>Activities</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
Operating revenue				
Charges for services	\$ 1,605,260	\$ 4,551,080	\$ 6,156,340	\$ 525,366
Interest and penalty charges	18,582	17,942	36,524	-
Total operating revenue	<u>1,623,842</u>	<u>4,569,022</u>	<u>6,192,864</u>	<u>525,366</u>
Operating expenses				
Cost of water produced/purchased	930,122	-	930,122	-
Cost of sewage treatment	-	1,587,109	1,587,109	-
Cost of labor	362,939	1,279,240	1,642,179	160,231
Administrative costs, supplies, and other	192,206	1,305,761	1,497,967	317,537
Depreciation	328,367	534,216	862,583	164,532
Total operating expenses	<u>1,813,634</u>	<u>4,706,326</u>	<u>6,519,960</u>	<u>642,300</u>
Operating loss	<u>(189,792)</u>	<u>(137,304)</u>	<u>(327,096)</u>	<u>(116,934)</u>
Non-operating revenue (expenses)				
Interest income	12,893	51,026	63,919	12,001
Interest expense	-	(156,486)	(156,486)	-
Loss on sale of capital assets	-	-	-	(4,014)
Total non-operating revenue (expenses)	<u>12,893</u>	<u>(105,460)</u>	<u>(92,567)</u>	<u>7,987</u>
Net loss before transfers	<u>(176,899)</u>	<u>(242,764)</u>	<u>(419,663)</u>	<u>(108,947)</u>
Transfers				
Transfers in	2,915	-	2,915	-
Transfers out	(8,000)	(20,000)	(28,000)	-
Total transfers	<u>(5,085)</u>	<u>(20,000)</u>	<u>(25,085)</u>	<u>-</u>
Change in net assets	<u>(181,984)</u>	<u>(262,764)</u>	<u>(444,748)</u>	<u>(108,947)</u>
Net assets, beginning of year, as restated	<u>10,281,905</u>	<u>13,639,659</u>	<u>23,921,564</u>	<u>2,146,145</u>
Net assets, end of year	<u>\$ 10,099,921</u>	<u>\$ 13,376,895</u>	<u>\$ 23,476,816</u>	<u>\$ 2,037,198</u>

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash flows from operating activities				
Receipts from customers	\$ 1,659,235	\$ 4,623,285	\$ 6,282,520	\$ -
Payments to suppliers	(1,134,280)	(2,947,956)	(4,082,236)	(316,733)
Payments to employees	(356,415)	(1,987,278)	(2,343,693)	(158,517)
Internal activity - receipts from other funds	-	-	-	525,366
Net cash provided by (used in) operating activities	<u>168,540</u>	<u>(311,949)</u>	<u>(143,409)</u>	<u>50,116</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(304,951)	(562,590)	(867,541)	(71,714)
Principal paid on long-term debt	-	(360,000)	(360,000)	-
Interest paid on long-term debt	-	(112,412)	(112,412)	-
Net cash used in capital and related financing activities	<u>(304,951)</u>	<u>(1,035,002)</u>	<u>(1,339,953)</u>	<u>(71,714)</u>
Cash flows from noncapital financing activities				
Transfers in	2,915	-	2,915	-
Transfers out	(8,000)	(20,000)	(28,000)	-
Net cash used in noncapital financing activities	<u>(5,085)</u>	<u>(20,000)</u>	<u>(25,085)</u>	<u>-</u>
Cash flows from investing activities				
Interest income received	12,893	51,026	63,919	12,001
Net change in cash and cash equivalents	<u>(128,603)</u>	<u>(1,315,925)</u>	<u>(1,444,528)</u>	<u>(9,597)</u>
Cash and investments, beginning of year	<u>1,485,980</u>	<u>5,387,935</u>	<u>6,873,915</u>	<u>1,229,251</u>
Cash and investments, end of year	<u>\$ 1,357,377</u>	<u>\$ 4,072,010</u>	<u>\$ 5,429,387</u>	<u>\$ 1,219,654</u>
Cash and investments are presented on the statement of net assets as follows:				
Pooled cash and investments	\$ 1,357,377	\$ 3,683,337	\$ 5,040,714	\$ 1,219,654
Restricted cash and investments	-	388,673	388,673	-
	<u>\$ 1,357,377</u>	<u>\$ 4,072,010</u>	<u>\$ 5,429,387</u>	<u>\$ 1,219,654</u>

(continued)

CITY OF GRANDVILLE, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Activities</u>
				<u>Internal</u>
				<u>Service</u>
				<u>Fund</u>
Cash flows from operating activities				
Operating loss	\$ (189,792)	\$ (137,304)	\$ (327,096)	\$ (116,934)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	328,367	534,216	862,583	164,532
Changes in assets/liabilities:				
Accounts receivable	39,000	63,976	102,976	6,133
Interest receivable	(3,607)	(9,713)	(13,320)	(3,213)
Accounts payable	(11,952)	(55,086)	(67,038)	(2,116)
Accrued liabilities	2,583	(691,520)	(688,937)	647
Compensated absences	3,941	(16,518)	(12,577)	1,067
Net cash provided by (used in) operating activities	<u>\$ 168,540</u>	<u>\$ (311,949)</u>	<u>\$ (143,409)</u>	<u>\$ 50,116</u>

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

CITY OF GRANDVILLE, MICHIGAN
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets

Cash and pooled investments	<u>\$ 163,749</u>
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Liabilities

Due to Parks and Recreation Board	\$ 71,297
Due to 59th District Court	74,339
Due to property developers	9,657
Due to other governments	<u>8,456</u>

Total liabilities	<u>\$ 163,749</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2010

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Assets			
Pooled cash and investments	\$ 2,345,890	\$ 14,063	\$ 2,359,953
Receivables, net	6,507	-	6,507
Land held for sale	70,000	-	70,000
Capital assets not being depreciated	264,567	-	264,567
Capital assets being depreciated, net	104,218	-	104,218
	<hr/>		
Total assets	2,791,182	14,063	2,805,245
Liabilities			
Accounts payable and accrued liabilities	23,464	-	23,464
Long-term debt:			
Due in one year	-	100,174	100,174
Due in more than one year	-	899,826	899,826
	<hr/>		
Total liabilities	23,464	1,000,000	1,023,464
Net assets			
Invested in capital assets	368,785	-	368,785
Unrestricted (deficit)	2,398,933	(985,937)	1,412,996
	<hr/>		
Total net assets (deficit)	\$ 2,767,718	\$ (985,937)	\$ 1,781,781
	<hr/> <hr/>		

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

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Activities
Discretely Presented Component Units
For the Year Ended June 30, 2010

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Downtown Development Authority	\$ 165,389	\$ -	\$ 165,389
Program revenues			
Charges for services	1,829	-	1,829
Net revenue (expense)	(163,560)	-	(163,560)
General revenues			
Property taxes	299,769	14,063	313,832
Unrestricted investment earnings	24,043	-	24,043
Other revenue	162	-	162
Total general revenues	323,974	14,063	338,037
Net change in net assets	160,414	14,063	174,477
Net assets (deficit), beginning of year, as restated	2,607,304	(1,000,000)	1,607,304
Net assets (deficit), end of year	\$ 2,767,718	\$ (985,937)	\$ 1,781,781

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



NOTES TO FINANCIAL STATEMENTS

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. A separate section of the financial statements provides detailed financial information on the discretely presented component unit.

Blended Component Unit

Building Authority – The Building Authority is an entity legally separate from the City. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations because its purpose is to acquire, construct and equip public buildings on behalf of the City. The Building Authority had no activity for the year ended June 30, 2010, nor did it have any assets or liabilities at that date.

Discretely Presented Component Units

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

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General fund activities are financed by revenue from income taxes, property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

Special revenue funds are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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

Budgets and Budgetary Accounting

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

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The legal level of budgetary control is at the activity level.
5. Formal budgetary integration is employed as a management control device during the year for all funds except agency funds. Budget appropriations lapse at year-end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2010. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

Cash and Pooled Investments

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

Restricted Cash and Investments

Restricted cash and investments consist of amounts held in accordance with debt covenants and an amount advanced from Ottawa County to be used for engineering on upcoming construction projects.

Receivables

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

Special Assessments

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Due from Other Governments

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

Due to/from Other Funds

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

Land Held for Sale

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

Capital Assets

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

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

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

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

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Intangible Assets

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

Deferred Revenue

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

Compensated Absences

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

Long-term Obligations

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

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Interfund Transactions

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

Use of Estimates

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

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010, the City carried commercial insurance to cover risk of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. The City has not significantly reduced insurance coverage during the past year.

Construction Code Fees

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

Cumulative shortfall at June 30, 2009	\$ (1,967)
Building permit revenue	116,265
Related expenses:	
Direct costs	118,305
Estimated indirect costs	<u>2,118</u>
Cumulative shortfall at June 30, 2010	<u>\$ (6,125)</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

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

During the year ended June 30, 2010, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
General government:			
Attorney	\$ 325,000	\$ 441,619	\$ 116,619
Treasurer	162,031	163,083	1,052
Building inspection	90,000	116,734	26,734
Public safety:			
Narcotics enforcement	6,700	9,558	2,858
Recreation and culture:			
Special projects	569,209	574,694	5,485
Planning and zoning	54,213	57,212	2,999
Nonmajor governmental funds:			
Transfers out	28,400	43,508	15,108

3. DEFICIT FUND EQUITY

At June 30, 2010, the City's Brownfield Redevelopment Authority component unit reported deficit unrestricted net assets of \$985,937. The deficit resulted from incurring expenditures for a project to be funded through a future property tax levy.

4. DEPOSITS AND INVESTMENTS

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

	Primary Government	Component Units	Fiduciary Funds	Total
Pooled cash and investments	\$ 10,011,986	\$ 2,359,953	\$ 163,749	\$ 12,535,688
Restricted cash and investments	1,031,663	-	-	1,031,663
Total cash and investments	\$ 11,043,649	\$ 2,359,953	\$ 163,749	\$ 13,567,351

These deposits are in 16 financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

Cash and investments are composed of the following at June 30, 2010:

Checking/savings accounts	\$ 3,027,147
Certificates of deposit (due within one year)	7,996,089
Investments	2,543,813
Cash on hand	302
Total cash and investments	\$ 13,567,351

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. The City believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of year-end, \$3,822,761 of the City’s bank balance of \$11,112,572 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the City’s investments as of June 30, 2010:

Government mutual funds	\$ 73,328
Money market funds	1,458,490
Kent County investment pool	<u>1,011,995</u>
	<u>\$ 2,543,813</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for the investment custodial risk.

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

Standard and Poor’s AAAm	\$ 73,328
Unrated	<u>2,470,485</u>
	<u>\$ 2,543,813</u>

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the investments held by the City at year-end have a specified maturity date.

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

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

5. RECEIVABLES AND PAYABLES

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

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 104,816	\$ 1,595,144	\$ 360
Special assessments	84,333	-	-
Due from other governments	344,971	-	-
Interest	13,486	13,320	6,147
Total	\$ 547,606	\$ 1,608,464	\$ 6,507

Of the amounts reported above, \$76,768 of special assessments receivable reported in nonmajor governmental funds are not expected to be collected within one year.

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

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 313,077	\$ 504,489	\$ 22,522
Accrued liabilities	183,133	100,229	942
Accrued interest on long-term debt	56,468	16,667	-
Total	\$ 552,678	\$ 621,385	\$ 23,464

6. INTERFUND TRANSACTIONS

For the year ended June 30, 2010, interfund transfers consisted of the following:

	Transfers In			
Transfers out	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Total
Nonmajor governmental funds	\$ -	\$ 171,386	\$ 2,915	\$ 174,301
Water enterprise fund	8,000	-	-	8,000
Sewer enterprise fund	20,000	-	-	20,000
	\$ 28,000	\$ 171,386	\$ 2,915	\$ 202,301

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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

7. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2010, are as follows:

	Beginning of Year	Additions	Disposals	End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 1,738,397	\$ -	\$ -	\$ 1,738,397
Construction in progress	175,393	-	(175,393)	-
Total capital assets not being depreciated	<u>1,913,790</u>	-	<u>(175,393)</u>	<u>1,738,397</u>
Capital assets being depreciated:				
Infrastructure	78,453,398	235,147	-	78,688,545
Land improvements	1,421,575	15,200	-	1,436,775
Buildings and improvements	8,944,441	-	-	8,944,441
Office furnishings and equipment	4,851,866	71,714	(113,539)	4,810,041
Total capital assets being depreciated	<u>93,671,280</u>	<u>322,061</u>	<u>(113,539)</u>	<u>93,879,802</u>
Less accumulated depreciation for:				
Infrastructure	(68,004,052)	(2,289,959)	-	(70,294,011)
Land improvements	(951,858)	(55,959)	-	(1,007,807)
Buildings and improvements	(2,850,479)	(258,866)	-	(3,109,345)
Office furnishings and equipment	(3,741,845)	(181,788)	109,252	(3,814,381)
Total accumulated depreciation	<u>(75,548,234)</u>	<u>(2,786,562)</u>	<u>109,252</u>	<u>(78,225,544)</u>
Net capital assets being depreciated	<u>18,123,046</u>	<u>(2,464,501)</u>	<u>(4,287)</u>	<u>15,654,258</u>
Net governmental activities capital assets	<u>\$ 20,036,836</u>	<u>\$ (2,464,501)</u>	<u>\$ (179,680)</u>	<u>\$ 17,392,655</u>

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning of Year	Additions	Disposals	End of Year
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	605,412	282,434	(485,030)	402,816
Total capital assets not being depreciated	620,412	282,434	(485,030)	417,816
Capital assets being depreciated:				
Land improvements	31,676	-	-	31,676
Water and sewer distribution systems	17,453,649	1,051,412	-	18,505,061
Intangible assets	4,500,000	-	-	4,500,000
Buildings and building improvements	7,223,841	-	-	7,223,841
Other tools and equipment	3,112,053	18,725	-	3,130,778
Total capital assets being depreciated	32,321,219	1,070,137	-	33,391,356
Less accumulated depreciation for:				
Land improvements	(3,168)	(1,584)	-	(4,752)
Water and sewer distribution systems	(7,020,374)	(456,118)	-	(7,476,492)
Intangible assets	(1,575,000)	(112,500)	-	(1,687,500)
Buildings and building improvements	(2,588,677)	(146,513)	-	(2,735,190)
Other tools and equipment	(2,264,883)	(145,868)	-	(2,410,751)
Total accumulated depreciation	(13,452,102)	(862,583)	-	(14,314,685)
Net capital assets being depreciated	18,869,117	207,554	-	19,076,671
Net business-type activities capital assets	\$ 19,489,529	\$ 489,988	\$ (485,030)	\$ 19,494,487
Component Unit - Downtown Development Authority				
Capital assets not being depreciated:				
Land	\$ 264,567	\$ -	\$ -	\$ 264,567
Capital assets being depreciated:				
Land improvements	466,854	-	-	466,854
Less accumulated depreciation for:				
Land improvements	(346,101)	(16,535)	-	(362,636)
Net capital assets being depreciated	120,753	(16,535)	-	104,218
Net Downtown Development Authority capital assets	\$ 385,320	\$ (16,535)	\$ -	\$ 368,785

Construction in progress reported in business-type activities as of June 30, 2010 related to engineering fees for a future cleanwater plant renovation project. The City was not under contract for any preliminary construction costs at year-end, and therefore, no commitment has been disclosed.

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

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

Governmental activities	
General government	\$ 28,235
Judicial	46,064
Public safety	97,383
Public works	2,309,366
Recreation and culture	140,982
Depreciation charged to internal service funds	164,532
Total depreciation expense – governmental activities	\$ 2,786,562
 Business-type activities	
Water	\$ 328,367
Sewer	534,216
Total depreciation expense – business-type activities	\$ 862,583

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2010:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Governmental activities					
2007 Capital Improvement Bonds; payable in annual installments of \$35,000 to \$110,00 through 2016 with interest payable annually at 4.399%	\$ 700,000	\$ -	\$ (100,000)	\$ 600,000	\$ 95,000
2005 Building Authority Refunding Bonds; payable in annual installments of \$25,000 to 450,000 through 2025 with interest payable at 3.25 – 5.00%	5,115,000	-	(25,000)	5,090,000	245,000
1999 Building Authority Bonds; matured in 2010	205,000	-	(205,000)	-	-
Subtotal – installment debt	6,020,000	-	(330,000)	5,690,000	340,000
Deferred loss on refunding	(184,648)	-	20,352	(164,296)	(19,887)
Unamortized discount	84,431	-	(9,306)	75,125	9,094
Compensated absences	741,937	333,671	(335,306)	740,302	630,860
Total governmental activities	\$ 6,661,720	\$ 333,671	\$ (654,260)	\$ 6,341,131	\$ 960,067

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

	Beginning of Year	Additions	Deletions	End of Year	Due Due Within One Year
Business-type activities					
2006 Sewage System Revenue Bonds; payable in annual installments of \$335,000 to \$460,000 through 2016 with interest payable semi-annually at 4.00%	\$ 2,860,000	\$ -	\$ (360,000)	\$ 2,500,000	\$ 375,000
Deferred loss on refunding	(174,069)	-	41,835	(132,234)	(36,569)
Unamortized discount	36,538	-	(8,781)	27,757	7,676
Compensated absences	117,333	66,185	(78,762)	104,756	104,756
	\$ 2,839,802	\$ 66,185	\$ 405,708	\$ 2,500,279	\$ 450,863
Total business-type activities	\$ 2,839,802	\$ 66,185	\$ 405,708	\$ 2,500,279	\$ 450,863

Component Unit – Brownfield Redevelopment Authority

2006 Michigan Department of Environmental Quality payable in annual installments of \$100,174 through 2021 with interest payable annually at 2.00%.

	\$1,000,000	\$ -	\$ -	\$1,000,000	\$ 100,174
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The annual requirements, excluding compensated absences, unamortized losses on refunding, and unamortized premiums, to maturity on the total long-term obligations outstanding at June 30, 2010 are as follows:

	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 340,000	\$ 136,410	\$ 375,000	\$ 100,000	\$ 100,174	\$ -
2012	350,000	127,638	395,000	85,000	82,178	17,997
2013	360,000	117,084	405,000	69,200	83,822	16,353
2014	375,000	106,280	425,000	53,000	85,498	14,677
2015	390,000	95,101	440,000	36,000	87,208	12,967
2016-2020	1,810,000	326,379	460,000	18,400	462,910	37,962
2021-2025	2,065,000	133,252	-	-	98,210	1,964
	\$ 5,690,000	\$ 1,042,144	\$ 2,500,000	\$ 361,600	\$ 1,000,000	\$ 101,920

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

9. PENSION PLANS

Defined Benefit Pension Plan

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

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

For the year ended June 30, 2010 the City's annual pension cost for MERS of \$671,076 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (five year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, the date of the latest actuarial valuation, was ten years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
06/30/2008	\$ 545,724	240%	\$ 766,256
06/30/2009	692,442	96%	738,780
06/30/2010	671,076	100%	746,607

The net pension asset is calculated as follows:

Annual required contribution	\$ 671,076
Interest on net pension asset	(59,102)
Adjustment to annual required contribution	51,275
Net pension cost	663,249
Contributions made	(671,076)
Increase in net pension asset	(7,827)
Net pension asset, beginning of year	(738,780)
Net pension asset, end of year	\$ (746,607)

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$16,909,249, and the actuarial value of assets was \$11,585,134, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,324,115. The covered payroll (annual payroll of active employees covered by the plan) was \$1,489,196 and the ratio of the UAAL to the covered payroll was 358 percent.

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

Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees not participating in the defined benefit plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes nine percent of administration and department of public works employees' eligible earnings, as defined in the Plan document. The City contributes ten percent of police sergeant, police rank and file, and cleanwater employees' eligible earnings, as defined in the Plan document. Employee contributions, plus interest allocated to the employees' account, are fully vested after five years of service. Employer and employee contributions during the current year were \$307,308 and \$111,177, respectively.

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City has elected to provide postemployment health benefits to all full-time employees upon retirement. As of the most recent actuarial valuation, 13 retirees were eligible for postemployment health benefits. The City includes pre-Medicare retirees in its insured healthcare plan and pays the monthly premium cost in effect at the date of retirement through the date of eligibility for Medicare. The participant must pay any balance for increases in premiums after the date of retirement. Effective June 22, 2009, the City adopted the Michigan Municipal Employees' Retirement Systems (MERS) Retiree Health Funding Vehicle to fund the obligation.

Funding Policy. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go basis". The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2010, the City paid postemployment healthcare premiums of \$116,958 and made a deposit of \$169,862 into the MERS Retiree Health Funding Vehicle for future premiums. The City will, at its discretion, contribute amounts determined annually using the actuarial report.

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the previous year was as follows:

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

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

Annual required contribution	\$ 281,455
Interest on net OPEB obligation	(504)
Adjustment to annual required contribution	<u>596</u>
Net OPEB cost	281,547
Contributions made	<u>(286,820)</u>
Increase in net OPEB asset	(5,273)
Net OPEB asset, beginning of year	<u>(9,167)</u>
Net OPEB asset, end of year	<u>\$ (14,440)</u>

Funded Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,833,834, all of which was unfunded. At June 30, 2010, the City had \$383,499 held in trust for future payment under the other postemployment benefits plan.

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

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

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

CITY OF GRANDVILLE, MICHIGAN

Notes to Financial Statements

In the December 31, 2008 actuarial valuation, the project unit credit (level dollar) method was used. The actuarial assumptions included: (a) a rate of return on investments of 5.5%; and (b) projected healthcare benefit increases of 5.0%, downgraded to 0% over 5 years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 16 years on a closed basis.

11. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for employees; as such, the plan assets and liabilities are not included in this report. At June 30, 2010, \$2,356,512 was held in trust for employees.

12. LITIGATION

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

13. SUBSEQUENT EVENTS

In September 2010, the City issued \$4,710,000 in sanitary sewer system revenue bonds. Related to the issuance of these bonds, the City signed a contract in the amount of \$4,875,000 for renovation of the cleanwater plant.

14. RESTATEMENTS

Beginning net assets of the internal service fund (and governmental activities) were decreased by \$26,422 to correctly state beginning capital assets, net of accumulated depreciation. In addition, beginning net assets of governmental activities were increased by \$218,706 to correctly state beginning capital assets, record payroll taxes related to compensated absences payable, and to recognize a beginning net other postemployment benefits asset due to prior contributions in excess of the annual OPEB cost. The net effect of these adjustments on beginning net assets of governmental activities was an increase of \$192,284.

Beginning net assets of the sewer enterprise fund was decreased by \$6,822 in order to record payroll taxes related to compensated absences payable.

Beginning net assets of the Downtown Development Authority component unit were increased by \$63,359 to correctly state capital assets, net of accumulated depreciation.

* * * * *



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRANDVILLE, MICHIGAN
Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2007	\$10,498,547	\$ 16,047,141	\$ 5,548,594	65.4%	\$ 1,589,971	349.0%
12/31/2008	11,432,259	16,563,234	5,130,975	69.0%	1,496,770	342.8%
12/31/2009	11,585,134	16,909,249	5,324,115	68.5%	1,489,196	357.5%

Single Employer Defined Benefit Other Postemployment Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	\$ -	\$ 1,833,834	\$ 1,833,834	0.0%	*	*

* Information not available

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF GRANDVILLE, MICHIGAN

**Statement of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 5,569,001	\$ 5,569,001	\$ 5,479,495	\$ (89,506)
Licenses and permits	144,150	144,150	159,166	15,016
Intergovernmental	1,503,217	1,503,217	1,251,088	(252,129)
Fines and forfeitures	638,750	638,750	722,054	83,304
Charges for services	730,451	730,451	731,102	651
Interest income	52,000	52,000	47,050	(4,950)
Rental income	4,000	4,000	7,745	3,745
Cable revenue	120,000	120,000	183,883	63,883
Other revenue	45,896	45,896	134,873	88,977
Total revenue	8,807,465	8,807,465	8,716,456	(91,009)
Expenditures				
Current:				
General government:				
Legislative	38,504	37,004	34,394	(2,610)
Assessor	211,163	211,163	197,448	(13,715)
Attorney	325,000	325,000	441,619	116,619
Clerk	154,442	152,742	149,772	(2,970)
Treasurer	167,531	162,031	163,083	1,052
Executive	220,621	209,421	189,180	(20,241)
Probation	440,431	440,431	424,167	(16,264)
Court	44,268	44,268	43,905	(363)
Building inspection	90,000	90,000	116,734	26,734
General administration	470,987	640,987	562,427	(78,560)
Total general government	2,162,947	2,313,047	2,322,729	9,682
Judicial	603,300	603,300	550,282	(53,018)
Public safety:				
Narcotics enforcement	6,700	6,700	9,558	2,858
Police	3,241,541	3,191,641	3,006,125	(185,516)
Fire	935,123	912,123	864,589	(47,534)
Total public safety	4,183,364	4,110,464	3,880,272	(230,192)

(continued)

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
General Fund (Concluded)
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Expenditures (concluded)				
Current (concluded):				
Public works:				
Sidewalk maintenance	\$ 29,517	\$ 29,517	\$ 11,062	\$ (18,455)
Parking lot maintenance	39,384	39,384	19,848	(19,536)
Highways, streets, and bridges	350,300	350,300	342,830	(7,470)
Sanitation and other	39,008	39,008	36,987	(2,021)
Total public works	<u>458,209</u>	<u>458,209</u>	<u>410,727</u>	<u>(47,482)</u>
Recreation and culture:				
Cemetery	339,403	279,603	209,643	(69,960)
Special projects	569,209	569,209	574,694	5,485
Planning and zoning	54,213	54,213	57,212	2,999
Parks and recreation	488,251	472,251	352,179	(120,072)
Library	133,992	128,792	115,612	(13,180)
Other	139,747	139,747	133,034	(6,713)
Total recreation and culture	<u>1,724,815</u>	<u>1,643,815</u>	<u>1,442,374</u>	<u>(201,441)</u>
Total expenditures	<u>9,132,635</u>	<u>9,128,835</u>	<u>8,606,384</u>	<u>(522,451)</u>
Revenue over (under) expenditures	(325,170)	(321,370)	110,072	431,442
Other financing sources				
Transfers in	<u>28,000</u>	<u>28,000</u>	<u>28,000</u>	<u>-</u>
Net change in fund balances	(297,170)	(293,370)	138,072	431,442
Fund balances, beginning of year	<u>2,740,892</u>	<u>2,740,892</u>	<u>2,740,892</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 2,443,722</u></u>	<u><u>\$ 2,447,522</u></u>	<u><u>\$ 2,878,964</u></u>	<u><u>\$ 431,442</u></u>

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

CITY OF GRANDVILLE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue			
	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Assets				
Cash and pooled investments	\$ 305,156	\$ 204,968	\$ -	\$ 220,901
Restricted cash and investments	642,990	-	-	-
Special assessments receivable	-	-	84,333	-
Interest receivable	950	542	-	579
Due from other governments	111,045	40,740	-	-
Total assets	\$ 1,060,141	\$ 246,250	\$ 84,333	\$ 221,480
Liabilities				
Accounts payable	\$ 11,017	\$ 1,243	\$ -	\$ 534
Accrued liabilities	9,286	7,726	-	445
Deferred revenue	-	-	84,331	-
Total liabilities	20,303	8,969	84,331	979
Fund balances				
Reserved for debt service	642,990	-	-	-
Unreserved, undesignated	396,848	237,281	2	220,501
Total fund balances	1,039,838	237,281	2	220,501
Total liabilities and fund balances	\$ 1,060,141	\$ 246,250	\$ 84,333	\$ 221,480

<u>Debt Service</u>	<u>Totals</u>
\$ 3,949	\$ 734,974
-	642,990
-	84,333
-	2,071
-	151,785
\$ 3,949	\$ 1,616,153
\$ -	\$ 12,794
-	17,457
-	84,331
-	114,582
-	642,990
3,949	858,581
3,949	1,501,571
<u>\$ 3,949</u>	<u>\$ 1,616,153</u>

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Revenue, Expenditures
and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Major Streets	Local Streets	Revolving	Storm Sewer Trunkage
Revenue				
Property taxes	\$ 273,534	\$ 309,529	\$ -	\$ -
Intergovernmental	730,019	248,740	-	-
Charges for services	-	-	34,014	2,200
Interest income	11,091	2,539	9,496	2,172
Rental income	-	-	-	-
Total revenue	1,014,644	560,808	43,510	4,372
Expenditures				
Current:				
Public works	920,947	479,011	-	46,499
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	920,947	479,011	-	46,499
Revenue over (under) expenditures	93,697	81,797	43,510	(42,127)
Other financing sources (uses)				
Transfers in	40,593	-	-	-
Transfers out	(130,793)	-	(43,508)	-
Total other financing sources (uses)	(90,200)	-	(43,508)	-
Net change in fund balances	3,497	81,797	2	(42,127)
Fund balances, beginning of year	1,036,341	155,484	-	262,628
Fund balances, end of year	\$ 1,039,838	\$ 237,281	\$ 2	\$ 220,501

Debt Service	Totals
\$ -	\$ 583,063
-	978,759
-	36,214
114	25,412
456,265	456,265
456,379	2,079,713
-	1,446,457
330,000	330,000
257,058	257,058
587,058	2,033,515
(130,679)	46,198
130,793	171,386
-	(174,301)
130,793	(2,915)
114	43,283
3,835	1,458,288
\$ 3,949	\$ 1,501,571

CITY OF GRANDVILLE, MICHIGAN

Schedule of Revenue, Expenditures

and Changes in Fund Balance

Budget and Actual

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2010

	Major Streets			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 275,652	\$ 275,652	\$ 273,534	\$ (2,118)
Intergovernmental	742,500	742,500	730,019	(12,481)
Charges for services	-	-	-	-
Interest	2,500	2,500	11,091	8,591
Total revenue	1,020,652	1,020,652	1,014,644	(6,008)
Expenditures				
Current:				
Public works	1,027,708	1,027,708	920,947	(106,761)
Revenue over (under) expenditures	(7,056)	(7,056)	93,697	100,753
Other financing sources (uses)				
Transfers in	156,400	156,400	40,593	(115,807)
Transfers out	(130,800)	(130,800)	(130,793)	7
Total other financing sources (uses)	25,600	25,600	(90,200)	(115,800)
Net change in fund balances	18,544	18,544	3,497	(15,047)
Fund balances, beginning of year	1,036,341	1,036,341	1,036,341	-
Fund balances, end of year	\$ 1,054,885	\$ 1,054,885	\$ 1,039,838	\$ (15,047)

Local Streets

Original Budget	Final Budget	Actual	Variance With Final Budget
\$ 311,925	\$ 311,925	\$ 309,529	\$ (2,396)
250,000	250,000	248,740	(1,260)
-	-	-	-
3,000	3,000	2,539	(461)
564,925	564,925	560,808	(4,117)
614,778	614,778	479,011	(135,767)
(49,853)	(49,853)	81,797	131,650
-	-	-	-
-	-	-	-
-	-	-	-
(49,853)	(49,853)	81,797	131,650
155,484	155,484	155,484	-
\$ 105,631	\$ 105,631	\$ 237,281	\$ 131,650

(continued)

CITY OF GRANDVILLE, MICHIGAN
Schedule of Revenue, Expenditures
and Changes in Fund Balance
Budget and Actual
Nonmajor Special Revenue Funds (Concluded)
For the Year Ended June 30, 2010

	Revolving			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	25,506	25,506	34,014	8,508
Interest	2,857	2,857	9,496	6,639
Total revenue	28,363	28,363	43,510	15,147
Expenditures				
Current:				
Public works	-	-	-	-
Revenue over (under) expenditures	28,363	28,363	43,510	15,147
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(28,400)	(28,400)	(43,508)	(15,108)
Total other financing sources (uses)	(28,400)	(28,400)	(43,508)	(15,108)
Net change in fund balances	(37)	(37)	2	39
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ (37)	\$ (37)	\$ 2	\$ 39

Storm Sewer Trunkage

Original Budget	Final Budget	Actual	Variance With Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
4,000	4,000	2,200	(1,800)
3,000	3,000	2,172	(828)
7,000	7,000	4,372	(2,628)
59,961	59,961	46,499	(13,462)
(52,961)	(52,961)	(42,127)	10,834
-	-	-	-
-	-	-	-
-	-	-	-
(52,961)	(52,961)	(42,127)	10,834
262,628	262,628	262,628	-
\$ 209,667	\$ 209,667	\$ 220,501	\$ 10,834

CITY OF GRANDVILLE, MICHIGAN
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2010

	Trust and Agency	County and School Tax	Totals
Assets			
Cash and cash equivalents	\$ 155,293	\$ 8,456	\$ 163,749
Liabilities			
Due to Parks and Recreation Board	\$ 71,297	\$ -	\$ 71,297
Due to 59th District Court	74,339	-	74,339
Due to property developers	9,657	-	9,657
Due to other governments	-	8,456	8,456
 Total liabilities	 \$ 155,293	 \$ 8,456	 \$ 163,749

CITY OF GRANDVILLE, MICHIGAN
Balance Sheet
Downtown Development Authority - Governmental Fund
June 30, 2010

Assets

Pooled cash and investments	\$ 2,345,890
Accounts receivable	360
Interest receivable	6,147
Land held for sale	<u>70,000</u>
Total assets	<u><u>\$ 2,422,397</u></u>

Liabilities

Accounts payable	\$ 22,522
Accrued liabilities	<u>942</u>
Total liabilities	<u>23,464</u>

Fund balance

Reserved for land held for sale	70,000
Unreserved, undesignated	<u>2,328,933</u>
Total fund balance	<u>2,398,933</u>
Total liabilities and fund balance	<u><u>\$ 2,422,397</u></u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Component Units on the Statement of Net Assets
June 30, 2010

Fund balances - total governmental funds	\$ 2,398,933
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Amounts reported for *governmental activities* in the statement of net assets are different because:

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

Add - capital assets not being depreciated	264,567
Add - capital assets, net of accumulated depreciation	<u>104,218</u>

Net assets of governmental activities	<u><u>\$ 2,767,718</u></u>
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CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Downtown Development Authority - Governmental Fund
For the Year Ended June 30, 2010

Revenue	
Taxes	\$ 299,769
Charges for services	1,829
Interest	24,043
Miscellaneous	<u>162</u>
Total revenue	<u>325,803</u>
Expenditures	
Current:	
Other expenditures	118,531
Capital outlay	<u>30,323</u>
Total expenditures	<u>148,854</u>
Net change in fund balance	176,949
Fund balance, beginning of year	<u>2,221,984</u>
Fund balance, end of year	<u><u>\$ 2,398,933</u></u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net changes in fund balances - total governmental funds \$ 176,949

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

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

Deduct - depreciation expense (16,535)

Change in net assets of governmental activities \$ 160,414

CITY OF GRANDVILLE, MICHIGAN
Balance Sheet
Brownfield Redevelopment Authority - Governmental Fund
June 30, 2010

Assets	
Cash	<u>\$ 14,063</u>
Liabilities	
Accounts payable	\$ -
Fund balance	
Unreserved, undesignated	<u> 14,063</u>
Total liabilities and fund balance	<u>\$ 14,063</u>

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Component Units on the Statement of Net Assets
June 30, 2010

Fund balances - total governmental funds	\$ 14,063
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Amounts reported for *governmental activities* in the statement of net assets are different because:

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

Deduct - bonds payable	<u>(1,000,000)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (985,937)</u></u>

CITY OF GRANDVILLE, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balance
Brownfield Redevelopment Authority - Governmental Fund
For the Year Ended June 30, 2010

Revenue		
Property taxes		\$ 14,063
Expenditures		
Current:		
Other expenditures		-
Net change in fund balance		14,063
Fund balance, beginning of year		-
Fund balance, end of year		\$ 14,063

CITY OF GRANDVILLE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net changes in fund balances - total governmental funds \$ 14,063

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

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

Add - principal payments on long-term liabilities -

Change in net assets of governmental activities \$ 14,063

INTERNAL CONTROL AND COMPLIANCE



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

November 17, 2010

Honorable Mayor and
Members of the City Council
Grandville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the *City of Grandville, Michigan* (the "City"), as of and for the year ended June 30, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described below as Finding 2010-1 to be a material weakness.

Finding 2010-1 – Prior Period Restatements
Material Weakness in Internal Control over Financial Reporting

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. Management identified and corrected certain errors in its capital asset records, which resulted in material restatements to the beginning net assets of governmental activities and the Downtown Development Authority component unit.

Cause. This condition was noted in the 2009 audit, with the recommendation that unreconciled differences be investigated and corrected. These corrections resulted in the restatements noted.

Effect. As a result of this condition, the City’s accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The City reviewed the restated capital asset schedules with department heads to verify accuracy, completeness and existence of the schedules. The accounting records of the City have been updated accordingly and are presented accurately in the audited financial statements. No further corrective action is necessary at this time.

View of Responsible Officials: As noted above, the accounting records of the City has been properly restated, and no further corrective action is required.

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. We consider the deficiency described below as Finding 2010-2 to be a significant deficiency.

Finding 2010-2 – Segregation of Incompatible Duties
Significant Deficiency in Internal Control over Financial Reporting

Criteria. Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the City. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition. The City has several accounting functions that are performed by the same individual and are not subject to independent review and approval, including:

- Preparing certain month-end journal entries and other nonroutine transactions and posting such activity to the general ledger
- Preparing and mailing utility bills and posting cash receipts
- Inputting payroll data and generating payroll checks.
- Making buy/sell decisions for investments and recording corresponding entries in the general ledger

In addition, the City has certain accounting functions that appear to be subject to independent review and approval, however such review is not consistently documented with a signature/initials and date, including:

- When deposit slips are compared to the cash receipt log, no documentation of this review is retained
- The payroll check registered is reviewed and submitted to positive pay by an independent individual; however, the documentation is not retained

Cause: This condition is primarily caused by not recognizing opportunities to strengthen internal controls within the City.

Effect: As a result of this condition, the City is exposed to an increased risk that misstatements, whether caused by error or fraud, may occur and not be detected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. This review should be documented with the dated signature/initials of the reviewer and retained as evidence that the control was followed.

View of Responsible Officials: Management will evaluate whether the incompatible duties listed above can be segregated and/or subjected to independent review and approval, given the availability of current resources.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Grandville, Michigan in a separated letter dated November 17, 2010.

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

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

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



November 17, 2010

To the City Council
City of Grandville
Grandville, MI

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Grandville* (the "City") for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated June 28, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on October 13, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. Other than the restatements disclosed in note 14 to the financial statements, there are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. As described in our opinion on internal control and compliance in accordance with *Government Auditing Standards*, we proposed certain material adjustments to the City's records, which were reviewed and approved by management, as whose effect is included in the financial statements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated November 17, 2010.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large initial 'L' and 'J'.

City of Grandville

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

In planning and performing our audit of the financial statements of the City of Grandville (the "City") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

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. The deficiency we noted that we consider to be a significant deficiency is described in our 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*.

Other Matters

Compliance with the Uniform Budgeting Manual

Through its Uniform Budgeting Manual, the State of Michigan Department of Treasury requires that expenditures be budgeted (at a minimum) by activity. We noted that while the City Council was presented with a line item detail of the proposed budget, the budget was officially adopted in total at the fund level. Additionally, we noted that for the revolving special revenue fund, the City budgeted for an ending fund balance deficit, which is not permissible under State statutes.

City of Grandville

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

Internal Controls over Information Technology

We reviewed with management a list of information technology (IT) controls in place at the City. We noted various opportunities to enhance controls over IT, including:

- Formal written procedures for making changes to network
- Formal written disaster recovery plans
- Implement procedures to detect and prevent use of unauthorized software

We recommend that the City review the suggested controls not currently in place and consider whether it would be cost beneficial to implement such controls in the future.

Physical Inventory of Capital Assets

The City has not conducted a full physical count of its capital assets in several years. We would recommend that the City periodically perform a physical count of its capital assets and reconcile to the assets recorded in the accounting records.

General Comments Regarding Mitigation of Fraud Risks

Identifying and establishing mitigating controls against fraud risks is an important step in safeguarding the City's assets and maintaining the public trust. In its recommended practice titled "Establishment of a Internal Audit Function", the Government Finance Officers Association notes that, "every government should consider the feasibility of establishing a formal internal audit function... if it is not feasible to establish a separate internal audit function, a government is encouraged to consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose." We recommend that the City consider whether either of these options is appropriate for implementation at the City of Grandville.

City of Grandville

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

New Accounting Pronouncement – GASB 54

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will be effective for the City for the fiscal year ending June 30, 2011. This Statement changes the classifications of fund balance in governmental funds, and somewhat modifies the definition of special revenue funds for external financial reporting.

Under GASB 54, special revenue funds should be used only to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than those accounted for in debt service or capital projects funds). These specific revenue sources must be external (i.e., interfund transfers do not qualify), and must comprise a substantial portion of the fund's ongoing inflows.

In addition, the standard specifies that the term “designated fund balance” will no longer be used. Instead, funds can either be “committed” (by formal action of the governing body prior to the end of the fiscal year) or “assigned” (by the governing body or its designee, at any time prior to audit issuance). As with any new accounting standard, other issues are sure to arise during its implementation, and we will continue to monitor emerging best practices in this area. In the meantime, if you have any questions or concerns, please do not hesitate to contact us.

* * * * *

City of Grandville
Attachment B - Schedule of Adjustments Passed (SOAP)
For the June 30, 2010 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
Governmental activities					
General fund					
Effect of not posting a partial allowance for expected MTT/BOR adjustments in the prior year (actual adjustments amounted to \$46,995)	\$ -	\$ -	\$ 60,000	\$ (60,000)	\$ -
Unallocated pension expense as of 6/30/2009	-	-	27,011	-	27,011
Total general fund	-	-	87,011	(60,000)	27,011
Nonmajor governmental funds					
Unallocated pension expense as of 6/30/2009	-	-	5,248	-	5,248
Total governmental activities	\$ -	\$ -	\$ 92,259	\$ (60,000)	\$ 32,259
Business-type activities					
Water enterprise fund					
Unallocated pension expense as of 6/30/2009	\$ -	\$ -	\$ 8,494	\$ -	\$ 8,494
Sewer enterprise fund					
Unallocated pension expense as of 6/30/2009	-	-	3,833	-	3,833
Total business-type activities	\$ -	\$ -	\$ 12,327	\$ -	\$ 12,327

Note: the items reported above are all carryover effects from the prior year. None of these adjustments had any effect on the City's ending equity as of June 30, 2010.



**The City
of Grandville**

CITY HALL

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

11/17/10

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

We are providing this letter in connection with your audit of the financial statements of the *City of Grandville* as of June 30, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grandville and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 17, 2010 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.

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

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

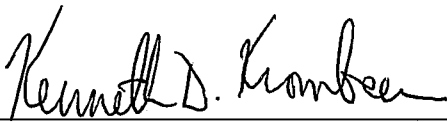
15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
16. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
17. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

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



Tammy Hopman
Treasurer/Finance Director



Ken Krombeen
City Manager