



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016



Vredeveld Haefner LLC

CITY OF EAST GRAND RAPIDS

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INDEPENDENT AUDITORS' REPORT

September 20, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 41 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Uredewald Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of East Grand Rapids (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2016 fiscal year as follows:

- Significant road and sidewalk projects were completed due to the passing of the dedicated road and sidewalk millage. A separate fund was created to account for the additional revenue and related expenditures.
- Construction on the Reeds Lake culvert project and the related trail/bridge project was completed with total expenditures (multiple fiscal years) of \$712,800 and \$866,700, respectively. Donations and a federal grant supported the trail/bridge project.
- In the Motor Pool Equipment Replacement Fund, \$375,000 was invested in various vehicle and equipment replacements.
- Payroll includes 66 full-time and 12 part-time positions with total salary expenditures at \$4,902,800.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$21,079,358 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2016	2015	2016	2015	2016
Assets						
Current and other assets	\$ 7,403,261	\$ 7,232,120	\$ 1,362,156	\$ 1,004,590	\$ 8,765,417	\$ 8,236,710
Long-term assets	23,555,886	24,929,210	9,034,038	9,720,522	32,589,924	34,649,732
Total assets	30,959,147	32,161,330	10,396,194	10,725,112	41,355,341	42,886,442
Deferred outflows of resources						
Pension contributions and deficit investment returns	511,033	1,241,934	-	-	511,033	1,241,934
Liabilities						
Current liabilities	1,416,753	1,363,416	264,184	588,354	1,680,937	1,951,770
Long-term liabilities	19,406,486	20,954,481	222,701	142,767	19,629,187	21,097,248
Total liabilities	20,823,239	22,317,897	486,885	731,121	21,310,124	23,049,018
Net position						
Net investment in capital assets	13,060,627	15,064,727	8,886,720	9,680,505	21,947,347	24,745,232
Restricted	1,621,753	1,240,479	-	-	1,621,753	1,240,479
Unrestricted (deficit)	(4,035,439)	(5,219,839)	1,022,589	313,486	(3,012,850)	(4,906,353)
Total net position	\$10,646,941	\$11,085,367	\$9,909,309	\$9,993,991	\$20,556,250	\$21,079,358

The City's unrestricted net position in governmental activities is in a deficit position as a result of recording the net pension liability. Net investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding was \$24,745,232 at the end of the current fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position in the amount of \$1,240,479 represents resources that are subject to external restrictions on how they may be used.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2016, was \$17,897,561 while total cost of all programs and services was \$17,347,453. This resulted in an increase in net position of \$523,108. The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2016	2015	2016	2015	2016
Revenues						
Program revenues						
Charges for services	\$1,660,517	\$1,765,682	\$3,279,925	\$3,433,347	\$4,940,442	\$5,199,029
Operating grants and contributions	858,885	933,374	-	-	858,885	933,374
Capital grants and contributions	100,000	675,542	-	57,569	100,000	733,111
General revenues						
Property taxes	8,379,859	9,897,660	-	-	8,379,859	9,897,660
State shared revenues	914,560	889,995	-	-	914,560	889,995
Cable franchise fees	221,047	226,001	-	-	221,047	226,001
Investment earnings	32,002	40,203	1,632	2,322	33,634	42,525
Gain on sale of assets	19,823	(24,134)	-	-	19,823	(24,134)
Total revenues	12,186,693	14,404,323	3,281,557	3,493,238	15,468,250	17,897,561
Expenses						
Legislative	26,252	27,081	-	-	26,252	27,081
General government	1,823,961	1,889,258	-	-	1,823,961	1,889,258
Public safety	4,795,196	6,182,797	-	-	4,795,196	6,182,797
Public works	2,967,552	3,471,010	-	-	2,967,552	3,471,010
Culture and recreation	2,010,266	2,135,948	-	-	2,010,266	2,135,948
Interest on long-term debt	304,525	259,803	-	-	304,525	259,803
Water and sewer	-	-	3,100,043	3,408,556	3,100,043	3,408,556
Total expenses	11,927,752	13,965,897	3,100,043	3,408,556	15,027,795	17,374,453
Increase (decrease) in net position						
before transfers	258,941	438,426	181,514	84,682	440,455	523,108
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	258,941	438,426	181,514	84,682	440,455	523,108
Net position – beginning	10,388,000	10,646,941	9,727,795	9,909,309	20,115,795	20,556,250
Net position – ending	\$10,646,941	\$11,085,367	\$9,909,309	\$9,993,991	\$20,556,250	\$21,079,358

Governmental Activities The preceding table shows that the governmental activities increased the City's net position by \$438,426 during this fiscal year. The increase is the result of significant capital additions that will be depreciated (expensed) in future years.

Business-type Activities Business-type activities increased the City's net position by \$84,682 during the year. This is a result of significant increase in usage of both water and sewage treatment service.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,856,409, a decrease of \$118,272 from the prior year, which is primarily due to construction of streets within the city.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, nonspendable fund balance of \$45,571 relates to prepaid assets, restricted fund balance of \$77,923 relates to public safety, committed fund balance of \$335,000 relates to future activities committed to by the Board and assigned fund balance of \$271,648 relates to future retirement payments and subsequent year expenditures. Unassigned fund balance represents \$2,927,029 of total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 30% of total general fund expenditures.

The Major Street Fund is used to account for the receipt and expenditure of fuel and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51. The fund balance decreased by \$2,208 during the current fiscal year leaving a remaining fund balance of \$559,658.

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

The City's enterprise operation consists of the water and sewer fund which provides services to most residents and businesses of the City. This fund experienced an increase in net position of \$84,862 as discussed under business-type activities above.

Budgetary Highlights

Revenues in the General Fund were approximately \$10,992,000 which is 100.4% of the \$10,952,500 amended budgeted amount for the fiscal year. Property tax revenue was \$8,046,700 or 100.0% collection of the original tax roll.

Expenditures and transfers out in the General Fund were approximately \$10,708,000 or 97.6% of the amended budgeted amount of \$10,972,500. The budget was amended to use \$20,000 of fund balance for the year, however, actual results added \$284,230 to unrestricted fund balance which is made up of savings throughout various departments.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$34,649,732 (net of accumulated depreciation). Of this amount, \$24,929,210 was for its governmental activities and \$9,720,522 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Current year additions included various equipment and several road projects.

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

Long-term debt At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$21,097,248. Of this amount, \$20,954,481 was for governmental activities while \$142,767 was for business-type activities.

The City's total long-term liabilities increased by approximately \$1,468,000 during the current fiscal year as a result of an increase in the City's net pension liability of approximately \$2,000,000 partially off-set by payments made on long-term debt.

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

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2017 fiscal year:

- The General Fund expenditure budget for next year is \$389,900 more than last fiscal year's budgeted amount. Budgeted revenues are less than budgeted expenditures by \$270,000. General Fund unrestricted ending balance for the year ending June 30, 2017 is budgeted at 23.2% of expenditures including transfers.
- Property taxes, which comprise 74% of the General Fund budget, were increased by 1.37% in the June 30, 2017 budget. This is due to an overall assessed value increase of 8.4% and a taxable value increase of 3.4%.
- Due to an increase of taxable value over the inflation rate of 0.3%, a rollback of the City millage resulted. The General Fund budget for the year ended June 30, 2017 budget contains a property tax levy of 12.8828 mills, which is a reduction of 0.2321 from last year, which is the maximum available under the Headlee Amendment.
- The estimated tax funding dedicated to roads and sidewalks for the year ended June 30, 2016 is 1.2 million and is dedicated to roads and sidewalks. Significant capital projects are planned for the dedicated road and sidewalk millage.
- Construction on Lake Drive project has expected expenditures of \$1,629,500 in the Street Funds and \$600,000 in the Water and Sewer Fund. A federal grant will support \$600,000 of the total road portion of the project.
- The budget for the fiscal year ending June 30, 2017 contains a Water and Sewer rate increase to generate \$400,000 in additional funding to address the aging water distribution mains and sanitary sewer collection systems. A total of \$1,156,400 will be spent for the upgrade and replacement of water mains for the year ending June 30, 2017.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF EAST GRAND RAPIDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 6,507,068	\$ 371,984	\$ 6,879,052
Accounts receivable	158,686	578,182	736,868
Internal balances	8,241	(8,241)	-
Due from other governments	382,371	-	382,371
Inventory	88,820	59,482	148,302
Prepaid and other assets	86,934	3,183	90,117
Capital assets			
Land	2,124,000	-	2,124,000
Construction in progress	306,267	529,927	836,194
Depreciable capital assets, net	22,498,943	9,190,595	31,689,538
Total assets	32,161,330	10,725,112	42,886,442
Deferred outflows of resources			
Pension contributions and deficit investment returns	1,241,934	-	1,241,934
Liabilities			
Accounts payable	571,135	565,861	1,136,996
Accrued liabilities	458,833	10,733	469,566
Unearned revenue	94,667	-	94,667
Compensated absences	238,781	11,760	250,541
Noncurrent liabilities			
Net other post-employment benefits liability	783,025	102,750	885,775
Net pension liability	10,306,973	-	10,306,973
Debt due within one year	648,972	40,017	688,989
Debt due in more than one year	9,215,511	-	9,215,511
Total liabilities	22,317,897	731,121	23,049,018
Net position			
Net investment in capital assets	15,064,727	9,680,505	24,745,232
Restricted for			
Streets	1,153,115	-	1,153,115
Capital projects	5,082	-	5,082
Public safety	77,923	-	77,923
Debt service	4,359	-	4,359
Unrestricted (deficit)	(5,219,839)	313,486	(4,906,353)
Total net position	\$ 11,085,367	\$ 9,993,991	\$ 21,079,358

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
Legislative	\$ 27,081	\$ -	\$ -	\$ -
General government	1,889,258	260,766	-	500
Public safety	6,182,797	110,164	5,598	-
Public works	3,495,242	394,781	927,776	497,611
Parks and recreation	2,135,948	1,005,241	-	177,431
Interest on long-term debt	259,803	-	-	-
Total governmental activities	13,990,129	1,770,952	933,374	675,542
Business-type activities				
Water and sewer	3,408,556	3,433,347	-	57,569
Total primary government	\$ 17,398,685	\$ 5,204,299	\$ 933,374	\$ 733,111

(continued)

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

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (10,610,261)	\$ 82,360	\$ (10,527,901)
General revenues			
Property taxes	9,897,660	-	9,897,660
State shared revenues	889,995	-	889,995
Cable franchise fees	226,001	-	226,001
Unrestricted investment earnings	35,031	2,322	37,353
Total general revenues and transfers	<u>11,048,687</u>	<u>2,322</u>	<u>11,051,009</u>
Change in net position	438,426	84,682	523,108
Net position, beginning of year	<u>10,646,941</u>	<u>9,909,309</u>	<u>20,556,250</u>
Net position, end of year	<u>\$ 11,085,367</u>	<u>\$ 9,993,991</u>	<u>\$ 21,079,358</u>

(concluded)

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

CITY OF EAST GRAND RAPIDS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

	<u>General</u>	<u>Special Revenue Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 3,837,097	\$ 698,029	\$ 598,672	\$ 5,133,798
Accounts receivable	117,375	357	6,185	123,917
Due from other governments	234,200	101,364	46,807	382,371
Inventory	-	16,658	16,658	33,316
Prepaid items	45,571	1,683	1,683	48,937
Total assets	<u>\$ 4,234,243</u>	<u>\$ 818,091</u>	<u>\$ 670,005</u>	<u>\$ 5,722,339</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 247,463	\$ 247,600	\$ 20,364	\$ 515,427
Due to other funds	65,482	4,559	4,183	74,224
Accrued liabilities	180,631	6,274	5,878	192,783
Unearned revenue	83,496	-	-	83,496
Total liabilities	<u>577,072</u>	<u>258,433</u>	<u>30,425</u>	<u>865,930</u>
Fund balances				
Nonspendable				
Inventory	-	16,658	16,658	33,316
Prepaid items	45,571	1,683	1,683	48,937
Restricted				
Streets	-	541,317	611,798	1,153,115
Public safety	77,923	-	-	77,923
Debt service	-	-	4,359	4,359
Committed				
Turf replacement	335,000	-	-	335,000
Assigned				
Capital projects	-	-	5,082	5,082
Future retirement payments	111,648	-	-	111,648
Subsequent year expenditures	160,000	-	-	160,000
Unassigned	2,927,029	-	-	2,927,029
Total fund balances	<u>3,657,171</u>	<u>559,658</u>	<u>639,580</u>	<u>4,856,409</u>
Total liabilities and fund balances	<u>\$ 4,234,243</u>	<u>\$ 818,091</u>	<u>\$ 670,005</u>	<u>\$ 5,722,339</u>

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

CITY OF EAST GRAND RAPIDS

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

JUNE 30, 2016

Fund balances - total governmental funds	\$ 4,856,409
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	2,124,000
Add - construction in progress	306,267
Add - capital assets (net of accumulated depreciation)	20,676,276
Deferred pension contributions and deficit investment returns relate to future years and are not reported in the funds.	
Add - deferred outflows	1,241,934
Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service funds	3,126,145
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(227,962)
Deduct - net other post-employment benefit liability	(783,025)
Deduct - net pension liability	(10,306,973)
Deduct - bonds payable	(9,864,483)
Deduct - accrued interest on bonds payable	(63,221)
Net position of governmental activities	<u>\$ 11,085,367</u>

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

CITY OF EAST GRAND RAPIDS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Special Revenue Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 8,046,700	\$ -	\$ 1,818,692	\$ 9,865,392
Intergovernmental revenues				
State	944,210	611,791	295,630	1,851,631
Licenses and permits	58,838	-	-	58,838
Charges for services	476,181	-	-	476,181
Recreation	1,192,142	-	-	1,192,142
Fines	43,589	-	-	43,589
Special assessments	-	-	15,022	15,022
Rentals	40,425	-	-	40,425
Investment earnings	25,648	2,657	5,889	34,194
Other	164,659	14,170	183,616	362,445
Total revenues	<u>10,992,392</u>	<u>628,618</u>	<u>2,318,849</u>	<u>13,939,859</u>
Expenditures				
Current				
Legislative	26,992	-	-	26,992
General government	1,550,667	-	-	1,550,667
Public safety	4,682,848	-	-	4,682,848
Public works	1,598,386	897,601	1,675,017	4,171,004
Parks and recreation	1,849,269	-	-	1,849,269
Debt service				
Principal	-	-	608,000	608,000
Interest	-	-	261,740	261,740
Capital outlay	-	-	907,611	907,611
Total expenditures	<u>9,708,162</u>	<u>897,601</u>	<u>3,452,368</u>	<u>14,058,131</u>
Revenues over (under) expenditures	<u>1,284,230</u>	<u>(268,983)</u>	<u>(1,133,519)</u>	<u>(118,272)</u>
Other financing sources (uses)				
Transfers in	-	527,180	1,758,326	2,285,506
Transfers out	(1,000,000)	(260,405)	(1,025,101)	(2,285,506)
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>266,775</u>	<u>733,225</u>	<u>-</u>
Net changes in fund balances	284,230	(2,208)	(400,294)	(118,272)
Fund balances, beginning of year	<u>3,372,941</u>	<u>561,866</u>	<u>1,039,874</u>	<u>4,974,681</u>
Fund balances, end of year	<u>\$ 3,657,171</u>	<u>\$ 559,658</u>	<u>\$ 639,580</u>	<u>\$ 4,856,409</u>

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

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds	\$ (118,272)
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Amounts reported for *governmental activities* in the statement of activities are different because

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

Add - capital outlay	3,119,967
Deduct - depreciation expense	(1,668,314)

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

Deduct - special assessment receipts	(15,022)
--------------------------------------	----------

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

Add - principal payments on debt	622,900
Add - amortization of bond premium	7,876

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

Deduct - increase in compensated absences	(1,720)
Deduct - increase in net pension liability	(1,970,220)
Add - increase in deferred outflows	730,901
Deduct - increase in net other post-employment benefits liability	(208,551)
Add - decrease in accrued interest	1,937

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

Deduct - decrease in net position of the internal service funds	<u>(63,056)</u>
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Change in net position of governmental activities	<u>\$ 438,426</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

PROPRIETARY FUNDS STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Assets		
Current assets		
Cash and pooled investments	\$ 371,984	\$ 1,373,270
Accounts receivable	578,182	34,769
Due from other funds	-	85,592
Prepaid and other assets	3,183	37,997
Inventory	59,482	55,504
	<hr/>	<hr/>
Total current assets	1,012,831	1,587,132
Capital assets		
Construction in progress	529,927	-
Depreciable capital assets, net	9,190,595	1,822,667
	<hr/>	<hr/>
Net capital assets	9,720,522	1,822,667
	<hr/>	<hr/>
Total assets	10,733,353	3,409,799
Liabilities		
Current liabilities		
Accounts payable	565,861	55,708
Accrued liabilities	10,733	202,829
Due to other funds	8,241	3,127
Unearned revenue	-	11,171
Compensated absences	11,760	10,819
Current portion of note payable	40,017	-
	<hr/>	<hr/>
Total current liabilities	636,612	283,654
Long-term liabilities		
Net other post-employment benefits liability	102,750	-
	<hr/>	<hr/>
Total liabilities	739,362	283,654
Net position		
Net investment in capital assets	9,680,505	1,822,667
Unrestricted	313,486	1,303,478
	<hr/>	<hr/>
Total net position	\$ 9,993,991	\$ 3,126,145
	<hr/>	<hr/>

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

CITY OF EAST GRAND RAPIDS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenue		
Charges for services	\$ 3,368,554	\$ 2,001,663
Other	64,793	46,562
Total operating revenue	3,433,347	2,048,225
Operating expense		
Personnel services	621,918	205,245
Contractual services	140,367	353,139
Materials and supplies	1,120,713	194,753
Equipment	169,285	3,466
Claims	34,063	932,682
Administration	207,891	72,244
Depreciation	435,100	330,305
Miscellaneous	677,394	1,420
Total operating expense	3,406,731	2,093,254
Operating income (loss)	26,616	(45,029)
Non-operating revenue (expense)		
Loss on sale of capital assets	-	(24,134)
Investment earnings	2,322	6,107
Interest expense	(1,825)	-
Total non-operating revenue (expense)	497	(18,027)
Changes in net position	84,682	(63,056)
Net position, beginning of year	9,909,309	3,189,201
Net position, end of year	\$ 9,993,991	\$ 3,126,145

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

CITY OF EAST GRAND RAPIDS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Fund Water and Sewer</u>	<u>Governmental Activities Internal Service Funds</u>
Cash flows from operating activities		
Receipts from internal services provided	\$ -	\$ 2,039,547
Receipts from customers and users	3,285,638	-
Payments to employees	(598,224)	(204,274)
Payments to suppliers	<u>(2,018,666)</u>	<u>(1,645,513)</u>
Net cash provided by (used in) operating activities	<u>668,748</u>	<u>189,760</u>
Cash flows from capital and related financing activities		
Interest expense	(1,825)	-
Principal paid on bonds	(107,301)	-
Proceeds from sale of capital assets	-	29,658
Capital grants	57,569	-
Acquisitions of capital assets	<u>(1,121,584)</u>	<u>(305,768)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,173,141)</u>	<u>(276,110)</u>
Cash flows from investing activities		
Interest income	<u>2,322</u>	<u>6,107</u>
Net increase (decrease) in cash and pooled investments	(502,071)	(80,243)
Cash and pooled investments, beginning of year	<u>874,055</u>	<u>1,453,513</u>
Cash and pooled investments, end of year	<u>\$ 371,984</u>	<u>\$ 1,373,270</u>
Cash flows from operating activities		
Operating income (loss)	\$ 26,616	\$ (45,029)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	435,100	330,305
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	(147,709)	7,180
Due from other funds	-	(16,456)
Prepaid and other assets	(1,980)	(3,171)
Inventory	5,168	4,779
Accounts payable	327,843	(48,072)
Due to other funds	16	598
Accrued liabilities	(598)	(40,945)
Unearned revenue	-	222
Compensated absences	(3,075)	349
Net pension liability	<u>27,367</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 668,748</u>	<u>\$ 189,760</u>

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION/BALANCE SHEET
JUNE 30, 2016

	Other Post-employment Benefit <u>Trust</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ -	\$ 17,573
Investments	<u>1,228,495</u>	<u>-</u>
Total assets	<u>1,228,495</u>	<u>\$ 17,573</u>
 Liabilities		
Accrued liabilities	12,528	\$ -
Due to other governmental units	<u>-</u>	<u>17,573</u>
Total liabilities	<u>12,528</u>	<u>\$ 17,573</u>
 Net position		
Held in trust for other post-employment benefits	<u>\$ 1,215,967</u>	

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

CITY OF EAST GRAND RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Other Post-employment Benefit Trust
Additions	
Contributions:	
Employer	\$ 39,528
Other	22,120
Investment earnings	<u>7,439</u>
Total Additions	69,087
Deductions	
Benefits	<u>57,397</u>
Net increase	11,690
Net position, beginning of year	<u>1,204,277</u>
Net position, end of year	<u><u>\$ 1,215,967</u></u>

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Blended Component Unit

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

Government-wide and Fund Financial Statements

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

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

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The City reports the following major proprietary fund:

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Additionally, the City reports the following fund types:

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Cash and Pooled Investments

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

Investments

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

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

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

Receivables/Due from Other Governments

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

Special Assessments Receivable

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

Prepaid and Other Assets

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Inventory

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

Capital Assets

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

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

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

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

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

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

Unearned/Unavailable Revenue

Governmental funds and the internal service fund report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and *unearned revenue* for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue reported in the funds were as follows:

Unearned revenue - fees received in advance	
General fund	\$83,496
Internal service funds	11,171
Total	<u>\$94,667</u>

Pensions

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has items that are reported in this category related to the pension investments and contributions as discussed in note 6.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has no items that qualify for reporting in this category.

Fund Equity

Governmental funds report fund balance in the following five categories:

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

5. Unassigned – is the residual classification and includes all spendable amounts not contained in the other classifications.

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

Net Position and Fund Balance Flow Assumptions

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

Property Taxes

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

Interfund Transactions

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

2. DEFICIT NET POSITION

At June 30, 2016, the City reported a deficit unrestricted net position in its governmental activities of \$5,219,839 due to the reporting of the net pension liability in accordance with GASB 68.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

3. CASH AND INVESTMENTS

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

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$6,879,052	\$ 17,573	\$6,896,625
Investments	-	1,228,495	1,228,495
	\$6,879,052	\$1,246,068	\$8,125,120

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

Deposits	\$3,943,064
Investments	4,181,806
Petty cash	250
Total	\$8,125,120

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of June 30, 2016, \$2,773,002 of the City's bank balance of \$4,023,003 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Investments

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

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Governmental activities				
Kent County Investment Pool	N/A	\$2,953,311	Unrated	
Other Post-employment Benefits Trust Fund				
Vantagepoint Milestone Ret. Income Fund	N/A	1,228,495	3 stars	Morningstar
Total		\$4,181,806		

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

Investment and deposit risk

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

At June 30, 2016 the balance of the Kent County Public Funds Investment Pool consisted of the following:

<u>Investment</u>	<u>Percentage of pool total</u>	<u>Maturity in years</u>
Government agency securities	26%	0-3
Certificates of deposits	60%	0-3
Deposits, money markets and other pools	14%	Not applicable

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

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

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

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

4. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at June 30, 2016 were as follows:

<u>Payable fund</u>	<u>Receivable fund</u>
General fund	\$65,482
Major streets fund	4,559
Nonmajor governmental funds	4,183
Water and sewer fund	8,241
Internal service fund	3,127
	\$85,592

Interfund balances reflect amounts owed to an internal service fund for services provided. Transfers in and out for the year ended June 30, 2016 are as follows:

<u>Transfers in</u>	<u>Transfers out</u>			<u>Total</u>
	<u>General fund</u>	<u>Major Streets fund</u>	<u>Nonmajor governmental funds</u>	
Major streets	\$ 362,100	\$ -	\$165,080	\$ 527,180
Nonmajor governmental funds	637,900	260,405	860,021	1,758,326
	\$1,000,000	\$260,405	\$1,025,101	\$2,285,506

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

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	271,881	306,267	271,881	306,267
Total capital assets, not being depreciated	2,395,881	306,267	271,881	2,430,267
Capital assets, being depreciated				
Land improvements	1,933,767	29,864	-	1,963,631
Buildings	12,417,729	-	-	12,417,729
Building improvements	3,524,284	-	-	3,524,284
Vehicles and equipment	4,837,420	493,975	216,065	5,115,330
Infrastructure	17,831,511	2,867,510	13,390	20,685,631
Total capital assets, being depreciated	40,544,711	3,391,349	229,455	43,706,605

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Less accumulated depreciation for				
Land improvements	\$ 712,697	\$ 100,651	\$ -	\$ 813,348
Buildings	3,765,873	400,170	-	4,166,043
Building improvements	2,480,231	182,266	-	2,662,497
Vehicles and equipment	2,705,935	440,976	162,273	2,984,638
Infrastructure	9,719,970	874,556	13,390	10,581,136
Total accumulated depreciation	<u>19,384,706</u>	<u>1,998,619</u>	<u>175,663</u>	<u>21,207,662</u>
Net capital assets, being depreciated	21,160,005	1,392,730	53,792	22,498,943
Governmental Activities capital assets, net	<u>\$23,555,886</u>	<u>\$1,698,997</u>	<u>\$325,673</u>	<u>\$24,929,210</u>

Business-type Activities

Construction in progress	\$ 51,244	\$529,927	\$51,244	\$ 529,927
Capital assets being depreciated				
Sewer system	8,939,030	326,070	-	9,265,100
Water system	7,863,264	316,831	-	8,180,095
Lift station	437,553	-	-	437,553
Water tower	602,175	-	-	602,175
Drains	1,726,036	-	-	1,726,036
Meters	350,271	-	-	350,271
Total capital assets, being depreciated	<u>19,918,329</u>	<u>642,901</u>	<u>-</u>	<u>20,561,230</u>
Less accumulated depreciation for				
Sewer system	5,823,465	198,924	-	6,022,389
Water system	2,631,081	151,362	-	2,782,443
Lift station	305,190	14,446	-	319,636
Water tower	300,978	41,681	-	342,659
Drains	1,568,334	11,172	-	1,579,506
Meters	306,487	17,515	-	324,002
Total accumulated depreciation	<u>10,935,535</u>	<u>435,100</u>	<u>-</u>	<u>11,370,635</u>
Net capital assets, being depreciated	8,982,794	207,801	-	9,190,595
Business-type Activities capital assets, net	<u>\$9,034,038</u>	<u>\$737,728</u>	<u>\$51,244</u>	<u>\$9,720,522</u>

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

Governmental Activities	
General government	\$ 333,663
Public safety	250,247
Public works	834,157
Recreation and culture	250,247
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>330,305</u>
Total depreciation expense - governmental activities	<u>\$1,998,619</u>
Business-type Activities	
Water and sewer	<u>\$435,100</u>

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS

MERS Defined Benefit Plan

Plan Description

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

This plan is closed to new entrants.

Benefits Provided

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

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2015):

Active plan members	6
Inactive employees entitled but not yet receiving benefits	5
Inactive employees or beneficiaries currently receiving benefits	<u>47</u>
Total	<u><u>58</u></u>

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was \$86,868 per month. Contributions are determined based on position and classification of participating employees. Participating employees are required to contribute from 0% to 5.0% percent of gross wages to the Plan based on position and classification. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age) (4.5 for 2014)

Investment rate of return: 7.75%, net of investment expense, including inflation (8.25 for 2014)

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

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

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

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

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

Discount rate

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

CITY OF EAST GRAND RAPIDS

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FOR THE YEAR ENDED JUNE 30, 2016

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/14	\$17,834,238	\$9,497,485	\$8,336,753
Changes for the Year:			
Service cost	53,644	-	53,644
Interest	1,361,488	-	1,361,488
Change in benefits	-	-	-
Differences between expected and actual experience	268,503	-	268,503
Change in assumptions	921,755	-	921,755
Contributions: employer	-	815,262	(815,262)
Contributions: employee	-	15,034	(15,034)
Net investment Income	-	(132,612)	132,612
Benefit payments, including refunds	(1,684,931)	(1,684,931)	-
Administrative expense	-	(19,970)	19,970
Other changes	42,544	-	42,544
Net changes	963,003	(1,007,217)	1,970,220
Balance at 12/31/15	\$18,797,241	\$8,490,268	\$10,306,973

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

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

	1% Decrease	Current Discount rate	1 % Increase
Total Pension Liability	\$20,473,690	\$18,797,241	\$17,353,781
Fiduciary Net Position	8,490,268	8,490,268	8,490,268
Net Pension Liability	\$ 11,983,422	\$ 10,306,973	\$ 8,863,513

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2016 the employer recognized pension expense of \$2,133,368. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences in experience	\$ -
Differences in assumptions	-
Excess (deficit) investment returns	787,422
Contributions subsequent to the measurement date*	454,512
Total	\$1,241,934

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2017

CITY OF EAST GRAND RAPIDS

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FOR THE YEAR ENDED JUNE 30, 2016

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

2017	\$205,312
2018	205,312
2019	205,312
2020	<u>171,486</u>
Total	<u>\$787,422</u>

Defined Contribution Plans

The City also maintains a defined contribution retirement plan administered by ICMA-RC. The plan has a vesting period of 5 years and can be amended by City Council within the limits of the union agreements. The City's contribution for the year was \$513,525 and the employees' contribution was \$118,849. The Plan covers all employees whose contributions are determined based on their position and classification as follows:

City services employees hired on or after July 7, 1999 and all City services employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. City services employees contribute 6% and the City contributes 7.5% of the participants' salaries to the Plan.

Non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. Non-Union employees have the option to contribute up to 1% of their salary to the plan. The City is required to contribute 14% of the participants' salaries and match the employees' optional contribution.

All public safety officers, lieutenants, and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002. Public safety participants are required to contribute 3.77-3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salaries to the Plan.

7. OTHER POST-EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (the Plan). The plan provides 100% of health insurance benefits to eligible retirees and their spouse until age 65. Dependents are covered until age 26. Eligibility is determined based on position and classification and is maintained until the employee is eligible for federal Medicare coverage at age 65. The City established a retirement health savings trust to account for the Plan effective June 13, 2008. The Plan does not issue a separate financial report.

The City contributes to the Plan as determined by the City Commission. The annual required contribution (ARC) was \$315,109 while the City contributed \$61,648 to the plan, which was the amount paid in direct payments for retirees from the health insurance internal service fund to provide insurance coverage for 6 retired employees. The contribution requirements of the Plan members and the City are established and may be amended by the City Commission.

The City's annual other post-employment benefit (OPEB) cost (expense) 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 costs each year and amortize any unfunded liabilities (or funding excess) over a period of fifteen years.

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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

Annual required contribution	\$ 315,109
Interest on Net OPEB asset	32,493
Adjustment to annual required contribution	<u>(50,036)</u>
Annual OPEB cost (expense)	297,566
Contribution made	<u>(61,648)</u>
Increase in net OPEB liability	235,918
Net OPEB liability, beginning of year	<u>649,857</u>
Net OPEB liability, end of year	<u>\$885,775</u>

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

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Asset</u> <u>(liability)</u>
6/30/14	\$313,038	23%	\$(203,875)
6/30/15	483,339	9%	(649,857)
6/30/16	297,566	21%	(885,775)

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Market</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
6/30/16	\$1,215,967	\$3,487,884	\$2,271,917	35%	N/A	N/A

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

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The June 30, 2016 actuarial valuation of the Plan utilized the individual entry age normal actuarial cost method. The actuarial assumptions included: a rate of return on investments of 5%, and projected healthcare benefit increases of 5%. The actuarial value of assets was determined using market value.

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 15 year period.

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities					
\$8,400,000 Unlimited Tax General Obligation Bonds, Series 2012B; due in annual installments of \$70,000 to \$570,000 through June 2033, plus interest at 2% to 4%	\$8,120,000	\$ -	\$250,000	\$7,870,000	\$265,000
\$1,243,000 Unlimited Tax General Obligation Refunding Bonds Series 2012; due in annual installments of \$97,000 to \$151,000 through April 2022, plus interest at 1.99%	932,000	-	113,000	819,000	121,000
\$1,250,000 2015 Michigan Transportation Fund Refunding Bonds; due in annual installments of \$245,000 to \$255,000 through April 2020, plus interest at .75% to 1.8%	1,250,000	-	245,000	1,005,000	250,000
Capital lease	51,500	-	14,900	36,600	12,972
Total	10,353,500	-	622,900	9,730,600	648,972
Unamortized premium	141,759	-	7,876	133,883	7,876
Total Governmental Activities	\$10,495,259	\$ -	\$630,776	\$9,864,483	\$656,848

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Business-type Activities					
\$981,824 Kent County Silver Creek Drain Refunding Bonds (18.65% City portion), due in annual installments of \$64,960 to \$107,648 through November 2015; plus interest 3.00% to 4.25%	\$ 67,745	\$ -	\$ 67,745	\$ -	\$ -
\$195,372 Kent County Silver Creek Drain Note (72.9% City portion), due in annual installments of \$38,127 to \$40,017 through March 2017; plus interest 1.5%	79,573	-	39,556	40,017	40,017
Total Business-type Activities	\$147,318	\$ -	\$107,301	\$40,017	\$40,017

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2016 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 643,972	\$ 255,814	\$40,017	\$494
2018	679,775	244,494	-	-
2019	712,397	229,245	-	-
2020	752,456	212,633	-	-
2021	531,000	194,160	-	-
2022-2026	2,571,000	755,006	-	-
2027-2031	2,780,000	404,550	-	-
2032-2033	1,060,000	47,550	-	-
Total	\$9,730,600	\$2,343,452	\$40,017	\$494

9. RISK MANAGEMENT

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

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

CITY OF EAST GRAND RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The City is self-funded for employees' health benefits. The claims liability of \$60,586 reported at June 30, 2016 is based on the requirements of the Governmental Accounting Standards Board, which requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The activity of the self-funded insurance is accounted for in the Health Insurance Internal Service fund. An excess coverage insurance policy covers claims in excess of \$50,000 per covered individual. There were no changes in insurance coverage from the prior year other than an increase in yearly deductions/co-payments and an addition of a premium contribution for spousal/family coverage. The City is responsible for paying administrative charges which are included in this fund. The revenues for this fund's operation are charges to various funds, employee withholdings, and co-payments. The liability at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in the history of the self-insurance program, and there have been no significant reductions in insurance coverage from the prior year.

The changes in the claims liability for the years ended June 30, 2016 and 2015 were as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2016	\$126,542	\$1,133,068	\$1,199,024	\$ 60,586
2015	99,536	1,103,223	1,076,217	126,542

10. CONSTRUCTION CODE FEES

The City oversees building construction in accordance with the State of Michigan Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. During the year, the City collected fees of \$51,650 with related direct and indirect expenditures in excess of that amount.

11. COMMITMENTS AND SUBSEQUENT EVENTS

At year-end the City had remaining construction commitments of approximately \$885,000.

In addition, the City Commission approved a construction project in June 2016 for approximately \$1,050,000; the related contract was signed in July 2016.

CITY OF EAST GRAND RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

12. CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 8,050,000	\$ 8,050,000	\$ 8,046,700	\$ (3,300)
Intergovernmental revenues				
State	971,400	952,700	944,210	(8,490)
Licenses and permits	65,000	65,000	58,838	(6,162)
Charges for services	451,000	467,700	476,181	8,481
Recreation	1,171,800	1,149,000	1,192,142	43,142
Fines	40,000	42,000	43,589	1,589
Rentals	40,000	40,400	40,425	25
Investment earnings	15,000	20,000	25,648	5,648
Other	131,700	165,700	164,659	(1,041)
Total revenues	<u>10,935,900</u>	<u>10,952,500</u>	<u>10,992,392</u>	<u>39,892</u>
Expenditures				
Current				
Legislative	31,300	29,300	26,992	2,308
General government	1,678,400	1,616,100	1,550,667	65,433
Public safety	4,771,900	4,744,200	4,682,848	61,352
Public works	1,622,600	1,682,600	1,598,386	84,214
Parks and recreation	1,911,700	1,900,300	1,849,269	51,031
Total expenditures	<u>10,015,900</u>	<u>9,972,500</u>	<u>9,708,162</u>	<u>264,338</u>
Revenues over (under) expenditures	920,000	980,000	1,284,230	304,230
Other financing sources (uses)				
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>-</u>
Net changes in fund balance	(80,000)	(20,000)	284,230	304,230
Fund balance, beginning of year	<u>3,372,941</u>	<u>3,372,941</u>	<u>3,372,941</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,292,941</u>	<u>\$ 3,352,941</u>	<u>\$ 3,657,171</u>	<u>\$ 304,230</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 536,000	\$ 561,300	\$ 611,791	\$ 50,491
Investment earnings	1,500	2,400	2,657	257
Miscellaneous	500	13,800	14,170	370
Total revenues	<u>538,000</u>	<u>577,500</u>	<u>628,618</u>	<u>51,118</u>
Expenditures				
Current				
Public works				
Street maintenance	527,200	510,900	406,688	104,212
Street construction	-	259,900	410,100	(150,200)
Street administration	90,500	78,900	50,370	28,530
Engineering	64,800	48,200	30,443	17,757
Total expenditures	<u>682,500</u>	<u>897,900</u>	<u>897,601</u>	<u>299</u>
Revenues over (under) expenditures	<u>(144,500)</u>	<u>(320,400)</u>	<u>(268,983)</u>	<u>51,417</u>
Other financing sources (uses)				
Transfers in	404,500	580,400	527,180	(53,220)
Transfers out	(260,000)	(260,000)	(260,405)	(405)
Total other financing sources (uses)	<u>144,500</u>	<u>320,400</u>	<u>266,775</u>	<u>(53,625)</u>
Net changes in fund balance	-	-	(2,208)	(2,208)
Fund balance, beginning of year	<u>561,866</u>	<u>561,866</u>	<u>561,866</u>	<u>-</u>
Fund balance, end of year	<u>\$ 561,866</u>	<u>\$ 561,866</u>	<u>\$ 559,658</u>	<u>\$ (2,208)</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2014</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 52,264	\$ 53,644
Interest	1,418,426	1,361,488
Changes in benefit terms	-	-
Difference between expected and actual experience	-	268,503
Changes in assumptions	-	921,755
Benefit payments including employee refunds	(1,606,741)	(1,684,931)
Other	-	42,544
Net change in total pension liability	<u>(136,051)</u>	<u>963,003</u>
Total pension liability, beginning of year	<u>17,970,289</u>	<u>17,834,238</u>
Total pension liability, ending of year	<u>\$ 17,834,238</u>	<u>\$ 18,797,241</u>
 Plan Fiduciary Net Position		
Contributions-employer	\$ 750,996	\$ 815,262
Contributions-employee	18,124	15,034
Net Investment income	600,334	(132,612)
Benefit payments including employee refunds	(1,606,741)	(1,684,931)
Administrative expense	(21,858)	(19,970)
Net change in plan fiduciary net position	<u>(259,145)</u>	<u>(1,007,217)</u>
Plan fiduciary net position, beginning of year	<u>9,756,630</u>	<u>9,497,485</u>
Plan fiduciary net position, ending of year	<u>\$ 9,497,485</u>	<u>\$ 8,490,268</u>
 Total net pension liability	 <u>\$ 8,336,753</u>	 <u>\$ 10,306,973</u>
 Plan fiduciary net position as a percentage of the total pension liability	 53.3%	 45.2%
 Covered employee payroll	 \$ 415,614	 \$ 425,735
Employer's net pension liability as a percentage of covered employee payroll	2005.9%	2421.0%

Notes to schedule:

Above data is based on a December 31 measurement date.

CITY OF EAST GRAND RAPIDS
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>2015</u>	<u>2016</u>
Actuarially determined contributions	\$ 736,644	\$ 893,880
Contributions in relation to the actuarially determined contribution	<u>736,644</u>	<u>893,880</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 415,614	\$ 425,735
Contributions as a percentage of covered employee payroll	177%	210%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	2015: 7.75% 2014: 8.25%
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 mortality table

CITY OF EAST GRAND RAPIDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

RETIREE HEALTH OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ 1,210,423	\$ 3,644,458	\$ 2,434,035	33.21%	\$ 4,088,968	59.53%
6/30/2015	1,221,056	5,136,969	3,915,913	23.77%	4,792,000	81.72%
6/30/2016	1,215,967	3,487,884	2,271,917	34.86%	n/a	n/a

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2011	\$ 246,996	\$ 181,203	73%
2012	319,904	190,368	60%
2013	363,686	145,840	40%
2014	315,316	71,855	23%
2015	482,641	41,357	9%
2016	315,109	61,648	20%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

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

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 8,030,000	\$ 8,030,000	\$ 8,030,468	\$ 468
Interest and penalties on property taxes	20,000	20,000	16,232	(3,768)
Total taxes	<u>8,050,000</u>	<u>8,050,000</u>	<u>8,046,700</u>	<u>(3,300)</u>
Intergovernmental revenue				
State shared revenue	945,000	905,000	889,995	(15,005)
Community stabilization	-	26,300	32,268	5,968
State grants	26,400	21,400	21,947	547
Total intergovernmental revenue	<u>971,400</u>	<u>952,700</u>	<u>944,210</u>	<u>(8,490)</u>
Licenses and permits				
Business licenses	15,000	15,000	16,800	1,800
Building permits	35,000	35,000	30,373	(4,627)
Other	15,000	15,000	11,665	(3,335)
Total licenses and permits	<u>65,000</u>	<u>65,000</u>	<u>58,838</u>	<u>(6,162)</u>
Charges for services				
Administrative charges	180,000	180,000	180,000	-
Cable television franchise fees	210,000	223,500	226,001	2,501
Clerk's services	1,000	1,000	192	(808)
Right-of-way fees	35,000	35,000	40,778	5,778
Other	25,000	28,200	29,210	1,010
Total charges for services	<u>451,000</u>	<u>467,700</u>	<u>476,181</u>	<u>8,481</u>
Recreation fees	<u>1,171,800</u>	<u>1,149,000</u>	<u>1,192,142</u>	<u>43,142</u>
Fines and penalties	<u>40,000</u>	<u>42,000</u>	<u>43,589</u>	<u>1,589</u>
Investment earnings	<u>15,000</u>	<u>20,000</u>	<u>25,648</u>	<u>5,648</u>
Rentals				
Library rental fee	<u>40,000</u>	<u>40,400</u>	<u>40,425</u>	<u>25</u>
Other revenue				
Cable tower rental	65,000	65,000	61,118	(3,882)
Drug seizure funds	46,700	48,700	50,226	1,526
Cable television capital fees	20,000	52,000	52,815	815
Miscellaneous revenue	-	-	500	500
Total other revenue	<u>131,700</u>	<u>165,700</u>	<u>164,659</u>	<u>(1,041)</u>
Total revenues	<u>\$ 10,935,900</u>	<u>\$ 10,952,500</u>	<u>\$ 10,992,392</u>	<u>\$ 39,892</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
City Commission	\$ 31,300	\$ 29,300	\$ 26,992	\$ 2,308
General government				
City Manager	341,800	327,800	329,015	(1,215)
City Attorney	260,000	236,000	216,722	19,278
Elections	16,800	12,500	11,734	766
City Assessor	128,000	128,700	118,764	9,936
Finance	644,800	648,600	625,374	23,226
Other	287,000	262,500	249,058	13,442
Total general government	1,678,400	1,616,100	1,550,667	65,433
Public safety				
General activity	4,679,700	4,729,300	4,663,171	66,129
State programs	5,500	6,200	6,160	40
Drug seizure program	86,700	8,700	13,517	(4,817)
Total public safety	4,771,900	4,744,200	4,682,848	61,352
Public works				
City buildings	731,100	747,600	727,495	20,105
Zoning administration	126,400	119,600	112,218	7,382
Street lighting	105,000	111,800	95,997	15,803
Wealthy streetscape maintenance	100,600	99,800	79,315	20,485
Waste collection	407,800	416,300	405,757	10,543
Lake restoration	13,000	61,000	56,322	4,678
Tree maintenance and removal	138,700	126,500	121,282	5,218
Total public works	1,622,600	1,682,600	1,598,386	84,214
Parks and recreation				
Parks	736,800	739,900	695,591	44,309
Pool	261,400	226,400	215,463	10,937
Special events	153,800	129,100	128,440	660
Recreation programming	97,300	106,800	107,001	(201)
Grounds maintenance	334,100	346,200	342,512	3,688
Recreation sports	183,900	225,500	232,616	(7,116)
Middle school sports	62,000	54,200	55,401	(1,201)
Acquatic club	82,400	72,200	72,245	(45)
Total culture and recreation	1,911,700	1,900,300	1,849,269	51,031
Total expenditures	\$ 10,015,900	\$ 9,972,500	\$ 9,708,162	\$ 264,338

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2016

	Special Revenue		Debt Service		
	Local Streets	Municipal Streets	Wealthy Pool	Municipal Complex	Streetscape
Assets					
Cash and pooled investments	\$ 583,321	\$ 4,898	\$ 2,220	\$ 2,139	\$ -
Accounts receivable	6,185	-	-	-	-
Due from other governments	46,807	-	-	-	-
Inventory	16,658	-	-	-	-
Prepaid items	1,683	-	-	-	-
Total assets	\$ 654,654	\$ 4,898	\$ 2,220	\$ 2,139	\$ -
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 18,676	\$ 676	\$ -	\$ -	\$ -
Due to other funds	4,183	-	-	-	-
Accrued liabilities	5,878	-	-	-	-
Total liabilities	28,737	676	-	-	-
Fund balances					
Nonspendable					
Inventory	16,658	-	-	-	-
Prepaid items	1,683	-	-	-	-
Restricted					
Streets	607,576	4,222	-	-	-
Debt service	-	-	2,220	2,139	-
Assigned	-	-	-	-	-
Total fund balances	625,917	4,222	2,220	2,139	-
Total liabilities and fund balances	\$ 654,654	\$ 4,898	\$ 2,220	\$ 2,139	\$ -

Capital Projects		
Culvert and Trail Project	Special Assessments	Total
\$ 6,094	\$ -	\$ 598,672
-	-	6,185
-	-	46,807
-	-	16,658
-	-	1,683
<u>\$ 6,094</u>	<u>\$ -</u>	<u>\$ 670,005</u>
\$ 1,012	\$ -	\$ 20,364
-	-	4,183
-	-	5,878
<u>1,012</u>	<u>-</u>	<u>30,425</u>
-	-	16,658
-	-	1,683
-	-	611,798
-	-	4,359
<u>5,082</u>	<u>-</u>	<u>5,082</u>
<u>5,082</u>	<u>-</u>	<u>639,580</u>
<u>\$ 6,094</u>	<u>\$ -</u>	<u>\$ 670,005</u>

CITY OF EAST GRAND RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue			Debt Service	
	Local Streets	Municipal Streets	Wealthy Pool	Municipal Complex	Streetscape
Revenues					
Taxes	\$ -	\$ 1,226,747	\$ 129,533	\$ 462,412	\$ -
Intergovernmental revenues					
State	295,630	-	-	-	-
Special assessments	-	-	-	-	-
Investment earnings	2,436	98	-	-	-
Miscellaneous	6,185	-	-	-	-
Total revenues	<u>304,251</u>	<u>1,226,845</u>	<u>129,533</u>	<u>462,412</u>	<u>-</u>
Expenditures					
Current					
Public works	1,276,685	398,332	-	-	-
Debt service					
Principal	-	-	113,000	250,000	245,000
Interest	-	-	18,485	227,850	15,405
Capital outlay	-	-	-	-	-
Total expenditures	<u>1,276,685</u>	<u>398,332</u>	<u>131,485</u>	<u>477,850</u>	<u>260,405</u>
Revenues over (under) expenditures	<u>(972,434)</u>	<u>828,513</u>	<u>(1,952)</u>	<u>(15,438)</u>	<u>(260,405)</u>
Other financing sources (uses)					
Transfers in	969,421	175,000	-	-	260,405
Transfers out	-	(999,291)	-	-	-
Total other financing sources (uses)	<u>969,421</u>	<u>(824,291)</u>	<u>-</u>	<u>-</u>	<u>260,405</u>
Net changes in fund balances	(3,013)	4,222	(1,952)	(15,438)	-
Fund balances, beginning of year	<u>628,930</u>	<u>-</u>	<u>4,172</u>	<u>17,577</u>	<u>-</u>
Fund balances, end of year	<u>\$ 625,917</u>	<u>\$ 4,222</u>	<u>\$ 2,220</u>	<u>\$ 2,139</u>	<u>\$ -</u>

Capital Projects		
Culvert and Trail Project	Special Assessments	Total
\$ -	\$ -	\$ 1,818,692
-	-	295,630
-	15,022	15,022
79	3,276	5,889
<u>177,431</u>	<u>-</u>	<u>183,616</u>
<u>177,510</u>	<u>18,298</u>	<u>2,318,849</u>
-	-	1,675,017
-	-	608,000
-	-	261,740
<u>907,611</u>	<u>-</u>	<u>907,611</u>
<u>907,611</u>	<u>-</u>	<u>3,452,368</u>
<u>(730,101)</u>	<u>18,298</u>	<u>(1,133,519)</u>
353,500	-	1,758,326
<u>-</u>	<u>(25,810)</u>	<u>(1,025,101)</u>
<u>353,500</u>	<u>(25,810)</u>	<u>733,225</u>
(376,601)	(7,512)	(400,294)
<u>381,683</u>	<u>7,512</u>	<u>1,039,874</u>
<u>\$ 5,082</u>	<u>\$ -</u>	<u>\$ 639,580</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,171,000	\$ -	\$ -	\$ -
Intergovernmental revenues				
State	222,300	242,000	295,630	53,630
Investment earnings	1,000	2,000	2,436	436
Miscellaneous	-	6,200	6,185	(15)
Total revenues	<u>1,394,300</u>	<u>250,200</u>	<u>304,251</u>	<u>54,051</u>
Expenditures				
Current				
Public works				
Street maintenance	685,300	460,400	371,578	88,822
Street construction	896,000	999,300	860,021	139,279
Street administration	89,500	72,900	45,086	27,814
Total expenditures	<u>1,670,800</u>	<u>1,532,600</u>	<u>1,276,685</u>	<u>255,915</u>
Revenues over (under) expenditures	(276,500)	(1,282,400)	(972,434)	309,966
Other financing source (uses)				
Transfers in	151,500	1,108,700	969,421	(139,279)
Net changes in fund balance	(125,000)	(173,700)	(3,013)	170,687
Fund balance, beginning of year	<u>628,930</u>	<u>628,930</u>	<u>628,930</u>	<u>-</u>
Fund balance, end of year	<u>\$ 503,930</u>	<u>\$ 455,230</u>	<u>\$ 625,917</u>	<u>\$ 170,687</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ 1,226,700	\$ 1,226,747	\$ 47
Investment earnings	-	100	98	(2)
Total revenues	<u>-</u>	<u>1,226,800</u>	<u>1,226,845</u>	<u>45</u>
Expenditures				
Current				
Public works				
Street maintenance	-	336,300	332,276	4,024
Street construction	-	66,200	66,056	144
Total expenditures	<u>-</u>	<u>402,500</u>	<u>398,332</u>	<u>4,168</u>
Revenues over (under) expenditures	<u>-</u>	<u>824,300</u>	<u>828,513</u>	<u>4,213</u>
Other financing source (uses)				
Transfers in	-	175,000	175,000	-
Transfers out	-	(1,199,300)	(999,291)	200,009
Total other financing sources (uses)	<u>-</u>	<u>(1,024,300)</u>	<u>(824,291)</u>	<u>200,009</u>
Net changes in fund balance	-	(200,000)	4,222	204,222
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ (200,000)</u>	<u>\$ 4,222</u>	<u>\$ 204,222</u>

CITY OF EAST GRAND RAPIDS

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION**

JUNE 30, 2016

Assets	Motor Pool	Health Insurance	Total
Current assets			
Cash and pooled investments	\$ 878,228	\$ 495,042	\$ 1,373,270
Accounts receivable	2,305	32,464	34,769
Due from other funds	-	85,592	85,592
Prepaid and other assets	3,793	34,204	37,997
Inventory	<u>55,504</u>	<u>-</u>	<u>55,504</u>
Total current assets	<u>939,830</u>	<u>647,302</u>	<u>1,587,132</u>
Capital assets			
Capital assets being depreciated	4,372,471	-	4,372,471
Less accumulated depreciation	<u>(2,549,804)</u>	<u>-</u>	<u>(2,549,804)</u>
Net capital assets	<u>1,822,667</u>	<u>-</u>	<u>1,822,667</u>
Total assets	<u>2,762,497</u>	<u>647,302</u>	<u>3,409,799</u>
Liabilities			
Current liabilities			
Accounts payable	53,337	2,371	55,708
Due to other funds	3,127	-	3,127
Accrued liabilities	3,448	199,381	202,829
Unearned revenue	-	11,171	11,171
Compensated absences	<u>10,819</u>	<u>-</u>	<u>10,819</u>
Total liabilities	<u>70,731</u>	<u>212,923</u>	<u>283,654</u>
Net position			
Net investment in capital assets	1,822,667	-	1,822,667
Unrestricted	<u>869,099</u>	<u>434,379</u>	<u>1,303,478</u>
Total net position	<u>\$ 2,691,766</u>	<u>\$ 434,379</u>	<u>\$ 3,126,145</u>

CITY OF EAST GRAND RAPIDS

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Motor Pool</u>	<u>Health Insurance</u>	<u>Total</u>
Operating revenue			
Charges for services	\$ 679,395	\$ 1,322,268	\$ 2,001,663
Other	<u>11,904</u>	<u>34,658</u>	<u>46,562</u>
Total operating revenue	<u>691,299</u>	<u>1,356,926</u>	<u>2,048,225</u>
Operating expense			
Salaries and wages	205,245	-	205,245
Contracted services	3,360	349,779	353,139
Materials and supplies	194,753	-	194,753
Equipment	3,466	-	3,466
Claims	-	932,682	932,682
Administration	-	72,244	72,244
Depreciation	330,305	-	330,305
Miscellaneous	<u>1,420</u>	<u>-</u>	<u>1,420</u>
Total operating expense	<u>738,549</u>	<u>1,354,705</u>	<u>2,093,254</u>
Operating income (loss)	<u>(47,250)</u>	<u>2,221</u>	<u>(45,029)</u>
Non-operating revenue (expense)			
Loss on sale of capital assets	(24,134)	-	(24,134)
Investment earnings	<u>3,458</u>	<u>2,649</u>	<u>6,107</u>
Total non-operating revenue (expense)	<u>(20,676)</u>	<u>2,649</u>	<u>(18,027)</u>
Changes in net position	(67,926)	4,870	(63,056)
Net position, beginning of year	<u>2,759,692</u>	<u>429,509</u>	<u>3,189,201</u>
Net position, end of year	<u>\$ 2,691,766</u>	<u>\$ 434,379</u>	<u>\$ 3,126,145</u>

CITY OF EAST GRAND RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Motor Pool	Health Insurance	Total
Cash flows from operating activities			
Receipts from internal services provided	\$ 731,349	\$ 1,308,198	\$ 2,039,547
Payments to employees	(204,274)	-	(204,274)
Payments to suppliers	(247,277)	(1,398,236)	(1,645,513)
Net cash provided by (used in) operating activities	<u>279,798</u>	<u>(90,038)</u>	<u>189,760</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets	29,658	-	29,658
Acquisitions of capital assets:	(305,768)	-	(305,768)
Net cash provided by (used in) capital and related financing activities	<u>(276,110)</u>	<u>-</u>	<u>(276,110)</u>
Cash flows from investing activities:			
Interest income	3,458	2,649	6,107
Net increase (decrease) in cash and pooled investments	7,146	(87,389)	(80,243)
Cash and pooled investments, beginning of year	<u>871,082</u>	<u>582,431</u>	<u>1,453,513</u>
Cash and pooled investments, end of year	<u>\$ 878,228</u>	<u>\$ 495,042</u>	<u>\$ 1,373,270</u>
Cash flows from operating activities			
Operating income (loss)	\$ (47,250)	\$ 2,221	\$ (45,029)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	330,305	-	330,305
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	39,452	(32,272)	7,180
Due from other funds	-	(16,456)	(16,456)
Prepaid and other assets	(131)	(3,040)	(3,171)
Inventory	4,779	-	4,779
Accounts payable	(48,926)	854	(48,072)
Due to other funds	598	-	598
Accrued liabilities	622	(41,567)	(40,945)
Unearned revenue	-	222	222
Compensated absences	349	-	349
Net cash provided by (used in) operating activities	<u>\$ 279,798</u>	<u>\$ (90,038)</u>	<u>\$ 189,760</u>

INTERNAL CONTROL AND COMPLIANCE



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

September 20, 2016

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Urodeuxeld Haefner LLC