

# **City of Grosse Pointe, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2012**

# City of Grosse Pointe, Michigan

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## Contents

|   |       |
|---|-------|
| <b>Report Letter</b>  | 1-2   |
| <b>Management's Discussion and Analysis</b>   | 3-6   |
| <b>Basic Financial Statements</b>   |       |
| Government-wide Financial Statements:   |       |
| Statement of Net Assets   | 7     |
| Statement of Activities   | 8-9   |
| Fund Financial Statements:  |       |
| Governmental Funds:   |       |
| Balance Sheet   | 10    |
| Reconciliation of the Balance Sheet to the Statement of Net Assets  | 11    |
| Statement of Revenue, Expenditures, and Changes in Fund Balances  | 12    |
| Reconciliation of the Statement of Revenue, Expenditures,<br>and Changes in Fund Balances of Governmental Funds<br>to the Statement of Activities | 13    |
| Proprietary Funds:  |       |
| Statement of Net Assets   | 14    |
| Statement of Revenue, Expenses, and Changes in Net Assets   | 15    |
| Statement of Cash Flows   | 16    |
| Fiduciary Fund:   |       |
| Statement of Fiduciary Net Assets - Pension and Other Postemployment<br>Benefit Plans   | 17    |
| Statement of Changes in Fiduciary Net Assets - Pension and Other<br>Postemployment Benefit Plans  | 18    |
| Notes to Financial Statements   | 19-43 |
| <b>Required Supplemental Information</b>  | 44    |
| Budgetary Comparison Schedule - General Fund  | 45    |
| Pension System Schedule of Funding Progress and Employer Contributions  | 46    |
| Postemployment Benefits Schedule of Funding Progress  | 47    |

# City of Grosse Pointe, Michigan

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## Contents (Continued)

|  |    |
|--|----|
| <b>Other Supplemental Information</b>                                      | 48 |
| Nonmajor Governmental Funds:   |    |
| Combining Balance Sheet  | 49 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances | 50 |
| Fiduciary Fund:  |    |
| Combining Statement of Net Assets  | 51 |
| Combining Statement of Changes Net Assets                                  | 52 |

## Independent Auditor's Report

To the City Council  
City of Grosse Pointe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe, Michigan (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grosse Pointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe, Michigan as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, pension and postemployment benefit systems schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, 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 which 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 supplemental 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.

To the City Council  
City of Grosse Pointe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grosse Pointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Morse, PLLC*

October 4, 2012

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Grosse Pointe's (the "City") financial performance provides an overview of the City of Grosse Pointe's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Grosse Pointe as a whole and present a longer-term view of the City of Grosse Pointe's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Grosse Pointe's operations in more detail than the government-wide financial statements by providing information about the City of Grosse Pointe's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Grosse Pointe acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

|                              | Governmental Activities |                    | Business-type Activities |                    | Total              |                    |
|------------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|                              | 2012                    | 2011               | 2012                     | 2011               | 2012               | 2011               |
| <b>Assets</b>                |                         |                    |                          |                    |                    |                    |
| Current and other assets     | \$ 6,897.7              | \$ 7,191.3         | \$ 7,843.9               | \$ 5,791.3         | \$ 14,741.6        | \$ 12,982.6        |
| Capital assets               | <u>10,420.9</u>         | <u>10,502.2</u>    | <u>10,670.9</u>          | <u>10,391.9</u>    | <u>21,091.8</u>    | <u>20,894.1</u>    |
| Total assets                 | 17,318.6                | 17,693.5           | 18,514.8                 | 16,183.2           | 35,833.4           | 33,876.7           |
| <b>Liabilities</b>           |                         |                    |                          |                    |                    |                    |
| Current liabilities          | 506.4                   | 324.8              | 636.6                    | 362.4              | 1,143.0            | 687.2              |
| Long-term liabilities        | <u>3,688.0</u>          | <u>4,110.1</u>     | <u>5,103.0</u>           | <u>3,958.2</u>     | <u>8,791.0</u>     | <u>8,068.3</u>     |
| Total liabilities            | <u>4,194.4</u>          | <u>4,434.9</u>     | <u>5,739.6</u>           | <u>4,320.6</u>     | <u>9,934.0</u>     | <u>8,755.5</u>     |
| <b>Net Assets</b>            |                         |                    |                          |                    |                    |                    |
| Invested in capital assets - |                         |                    |                          |                    |                    |                    |
| Net of related debt          | 8,105.9                 | 7,847.2            | 6,692.9                  | 6,561.9            | 14,798.8           | 14,409.1           |
| Restricted                   | 747.2                   | 686.5              | -                        | -                  | 747.2              | 686.5              |
| Unrestricted                 | <u>4,271.1</u>          | <u>4,724.9</u>     | <u>6,082.3</u>           | <u>5,300.7</u>     | <u>10,353.4</u>    | <u>10,025.6</u>    |
| Total net assets             | <u>\$ 13,124.2</u>      | <u>\$ 13,258.6</u> | <u>\$ 12,775.2</u>       | <u>\$ 11,862.6</u> | <u>\$ 25,899.4</u> | <u>\$ 25,121.2</u> |

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis (Continued)

The City of Grosse Pointe's combined net assets increased 3.1 percent from a year ago - increasing from \$25,121,230 to \$25,899,412. In contrast, last year's net assets decreased by 4.2 percent. As we look at the business-type activities separately from the governmental-type activities, we can see that net assets from business-type activities increased by approximately 7.7 percent, mostly due to the Mack Avenue water main project and related bond issuance.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by approximately \$453,800 for the governmental activities. This represents a decrease of approximately 9.6 percent. The current level of unrestricted net assets for governmental activities stands at \$4,271,100. The targeted range is approximately 20 percent of the subsequent year's budgeted expenditures. The City transferred the excess of unrestricted net assets into the Retiree Healthcare Fund to finance future retiree healthcare expenses.

The following table shows the changes in net assets during the current year and as compared to the prior year (in thousands of dollars):

|                                       | Governmental Activities |                    | Business-type Activities |                    | Total              |                    |
|---------------------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|                                       | 2012                    | 2011               | 2012                     | 2011               | 2012               | 2011               |
| <b>Revenue</b>                        |                         |                    |                          |                    |                    |                    |
| Program revenue:                      |                         |                    |                          |                    |                    |                    |
| Charges for services                  | \$ 903.2                | \$ 776.6           | \$ 3,346.9               | \$ 2,969.7         | \$ 4,250.1         | \$ 3,746.3         |
| Operating grants and contributions    | 593.2                   | 369.3              | -                        | -                  | 593.2              | 369.3              |
| Capital grants and contributions      | 122.6                   | 47.9               | -                        | -                  | 122.6              | 47.9               |
| General revenue:                      |                         |                    |                          |                    |                    |                    |
| Property taxes                        | 4,812.9                 | 4,942.2            | -                        | -                  | 4,812.9            | 4,942.2            |
| State-shared revenue                  | 455.4                   | 422.8              | -                        | -                  | 455.4              | 422.8              |
| Investment income                     | 260.5                   | 63.0               | 317.4                    | 5.8                | 577.9              | 68.8               |
| Loss on sale of capital assets        | -                       | (6.0)              | -                        | -                  | -                  | (6.0)              |
| Other                                 | 259.0                   | 210.1              | -                        | -                  | 259.0              | 210.1              |
| Total revenue                         | 7,406.8                 | 6,825.9            | 3,664.3                  | 2,975.5            | 11,071.1           | 9,801.4            |
| <b>Program Expenses</b>               |                         |                    |                          |                    |                    |                    |
| General government                    | 1,382.0                 | 1,716.1            | -                        | -                  | 1,382.0            | 1,716.1            |
| Public safety                         | 2,957.4                 | 3,197.4            | -                        | -                  | 2,957.4            | 3,197.4            |
| Public works                          | 2,363.0                 | 2,310.9            | -                        | -                  | 2,363.0            | 2,310.9            |
| Recreation and culture                | 747.4                   | 764.5              | -                        | -                  | 747.4              | 764.5              |
| Interest on long-term debt            | 91.4                    | 119.3              | -                        | -                  | 91.4               | 119.3              |
| Water and sewer                       | -                       | -                  | 1,963.4                  | 1,979.9            | 1,963.4            | 1,979.9            |
| Automobile parking                    | -                       | -                  | 625.6                    | 645.4              | 625.6              | 645.4              |
| Marina                                | -                       | -                  | 162.7                    | 159.0              | 162.7              | 159.0              |
| Total program expenses                | 7,541.2                 | 8,108.2            | 2,751.7                  | 2,784.3            | 10,292.9           | 10,892.5           |
| <b>Change in Net Assets</b>           | (134.4)                 | (1,282.3)          | 912.6                    | 191.2              | 778.2              | (1,091.1)          |
| <b>Net Assets - Beginning of year</b> | 13,258.6                | 14,540.9           | 11,862.6                 | 11,671.4           | 25,121.2           | 26,212.3           |
| <b>Net Assets - End of year</b>       | <b>\$ 13,124.2</b>      | <b>\$ 13,258.6</b> | <b>\$ 12,775.2</b>       | <b>\$ 11,862.6</b> | <b>\$ 25,899.4</b> | <b>\$ 25,121.2</b> |

# **City of Grosse Pointe, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

State-shared revenue is expected to remain consistent. Property tax revenue and related charges posted a 2.6 percent decrease. Property tax revenue is expected to remain consistent in the future as the housing market begins to stabilize in southeastern Michigan.

Program expenses were held in check by forgoing the purchase of capital equipment and use of intergovernmental grants to fund capital projects along with department heads making every effort to control operating expenses, introduce efficiencies, and reduce noncore services. FTEs continue to be reduced. Use of outside consultants has been reduced, and several healthcare changes have been made to restrain the rising cost of employer-provided health benefits.

### **Business-type Activities**

The City of Grosse Pointe's business-type activities consist of the Water and Sewer Fund, the Automobile Parking System Fund, and the Marina Fund. Water is supplied to residents from the City of Grosse Pointe Farms water treatment plant, and sewage is processed by the Detroit water and sewage system. All revenue in the business-type activities funds relies on charges to customers. Overall, operating revenue from business-type activities remained fairly consistent, with an increase of 12.7 percent, due mainly to a one-time payment in lieu of parking fee. Operating expenses remained fairly consistent with a slight decrease of 1.2 percent.

### **The City of Grosse Pointe's Major Funds**

Our analysis of the City of Grosse Pointe's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Grosse Pointe as a whole. The City of Grosse Pointe creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City of Grosse Pointe's major funds for 2011-2012 include the General Fund and the Capital Projects Fund.

The General Fund pays for most of the City of Grosse Pointe's governmental services. The most significant service is public safety, which has departmental expenditures of \$2,813,208.

The Capital Projects Fund pays for the City of Grosse Pointe's capital improvement projects. The total capital outlay in the current fiscal year was \$717,361.



# **City of Grosse Pointe, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

The City of Grosse Pointe's General Fund departments stayed below budget, resulting in total expenditures \$91,644 below budget, with revenue slightly exceeding budgeted expectations by \$78,558. The General Fund transferred \$529,000 to the Retiree Healthcare Fund to finance future retiree healthcare expenses. The combination of these factors resulted in a decrease in General Fund fund balance from \$2,778,131 a year ago to \$2,741,385 at June 30, 2012, offset by the Capital Projects Fund containing \$3,338,859.

### **Capital Asset and Debt Administration**

At June 30, 2012, the City of Grosse Pointe had \$48,307,080 invested in a broad range of capital assets, including land, buildings, police and fire equipment, public works equipment, roads, and water and sewer lines. The depreciated value of these assets is \$21,091,771.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Grosse Pointe's 2012-2013 budget anticipates state revenue sharing to remain consistent. The City's tax rate remains unchanged and at the Headlee/Proposal A Constitutional cap. However, tax revenue was budgeted to decline due to the results of the housing market in the previous year. Unfunded retiree healthcare as well as pension obligations continue to be a financial burden on the City. The adopted budget was balanced entirely through reductions in expenditures.

### **Contacting the City of Grosse Pointe's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Grosse Pointe's finances and to show the City of Grosse Pointe's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the finance department.

# City of Grosse Pointe, Michigan

## Statement of Net Assets June 30, 2012

|   | Primary Government         |                             |                      | Component<br>Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                |                    |
| <b>Assets</b>   |                            |                             |                      |                    |
| Cash and investments (Note 3)   | \$ 5,322,536               | \$ 7,145,237                | \$ 12,467,773        | \$ 58,936          |
| Receivables - Net   | 382,103                    | 852,651                     | 1,234,754            | -                  |
| Prepaid expenses and other assets   | 73,469                     | 6,279                       | 79,748               | -                  |
| Restricted assets (Note 1)  | -                          | 952,001                     | 952,001              | -                  |
| Investment in Grosse Pointes - Clinton<br>Refuse Disposal Authority (Note 11) | 7,377                      | -                           | 7,377                | -                  |
| Capital assets (Note 5):  |                            |                             |                      |                    |
| Assets not subject to depreciation  | 2,332,624                  | 1,532,076                   | 3,864,700            | -                  |
| Assets subject to depreciation  | 8,088,274                  | 9,138,797                   | 17,227,071           | -                  |
| Advances to other funds (Note 4)  | 1,112,202                  | (1,112,202)                 | -                    | -                  |
| Total assets  | 17,318,585                 | 18,514,839                  | 35,833,424           | 58,936             |
| <b>Liabilities</b>  |                            |                             |                      |                    |
| Accounts payable  | 381,260                    | 580,042                     | 961,302              | -                  |
| Deposits  | 16,887                     | -                           | 16,887               | -                  |
| Accrued liabilities and other   | 108,229                    | 37,540                      | 145,769              | -                  |
| Unearned revenue  | -                          | 19,030                      | 19,030               | -                  |
| Noncurrent liabilities:   |                            |                             |                      |                    |
| Due within one year (Note 6):   |                            |                             |                      |                    |
| Compensated absences  | 283,857                    | 26,904                      | 310,761              | -                  |
| Current portion of long-term debt   | 340,000                    | 120,000                     | 460,000              | -                  |
| Due in more than one year (Note 6):   |                            |                             |                      |                    |
| Compensated absences  | 192,937                    | 21,462                      | 214,399              | -                  |
| Net OPEB obligation (Note 9)  | 896,234                    | 124,630                     | 1,020,864            | -                  |
| Long-term debt  | 1,975,000                  | 4,810,000                   | 6,785,000            | -                  |
| Total liabilities   | 4,194,404                  | 5,739,608                   | 9,934,012            | -                  |
| <b>Net Assets</b>   |                            |                             |                      |                    |
| Invested in capital assets - Net of<br>related debt                           | 8,105,898                  | 6,692,874                   | 14,798,772           | -                  |
| Restricted for:   |                            |                             |                      |                    |
| Highways and streets  | 115,600                    | -                           | 115,600              | -                  |
| Budget Stabilization  | 475,000                    | -                           | 475,000              | -                  |
| Police-restricted use   | 61,152                     | -                           | 61,152               | -                  |
| Solid waste   | 95,384                     | -                           | 95,384               | -                  |
| Unrestricted  | 4,271,147                  | 6,082,357                   | 10,353,504           | 58,936             |
| Total net assets  | <u>\$ 13,124,181</u>       | <u>\$ 12,775,231</u>        | <u>\$ 25,899,412</u> | <u>\$ 58,936</u>   |

# City of Grosse Pointe, Michigan

| Functions/Programs                              | Program Revenue      |                      |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   | Expenses             | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government:                             |                      |                      |                                    |                                  |
| Governmental activities:                        |                      |                      |                                    |                                  |
| General government                              | \$ 1,381,560         | \$ 556,723           | \$ 187,294                         | \$ -                             |
| Public safety                                   | 2,957,379            | -                    | 81,955                             | -                                |
| Public works                                    | 2,363,379            | 295,634              | 323,982                            | 122,645                          |
| Recreation and culture                          | 747,417              | 50,803               | -                                  | -                                |
| Interest on long-term debt                      | 91,379               | -                    | -                                  | -                                |
| Total governmental activities                   | 7,541,114            | 903,160              | 593,231                            | 122,645                          |
| Business-type activities:                       |                      |                      |                                    |                                  |
| Water and sewage disposal system                | 1,963,426            | 2,235,251            | -                                  | -                                |
| Automobile parking system                       | 625,603              | 948,687              | -                                  | -                                |
| Marina  | 162,668              | 162,951              | -                                  | -                                |
| Total business-type activities:                 | 2,751,697            | 3,346,889            | -                                  | -                                |
| Total primary government                        | <u>\$ 10,292,811</u> | <u>\$ 4,250,049</u>  | <u>\$ 593,231</u>                  | <u>\$ 122,645</u>                |
| Component unit - Downtown Development Authority | <u>\$ 76,572</u>     | <u>\$ -</u>          | <u>\$ -</u>                        | <u>\$ -</u>                      |
| General revenue:                                |                      |                      |                                    |                                  |
| Property taxes                                  |                      |                      |                                    |                                  |
| State-shared revenue (unrestricted)             |                      |                      |                                    |                                  |
| Investment income (unrestricted)                |                      |                      |                                    |                                  |
| Cable franchise fees (unrestricted)             |                      |                      |                                    |                                  |
| Other miscellaneous income                      |                      |                      |                                    |                                  |
| Total general revenues                          |                      |                      |                                    |                                  |
| <b>Change in Net Assets</b>                     |                      |                      |                                    |                                  |
| <b>Net Assets - Beginning of year</b>           |                      |                      |                                    |                                  |
| <b>Net Assets - End of year</b>                 |                      |                      |                                    |                                  |

**Statement of Activities  
Year Ended June 30, 2012**

| Net (Expense) Revenue and Changes in Net Assets |                             |                      |   |
|---|-----------------------------|----------------------|---|
| Primary Government                              |                             |                      | Component<br>Unit -<br>Downtown<br>Development<br>Authority |
| Governmental<br>Activities                      | Business-type<br>Activities | Total                |   |
| \$ (637,543)                                    | \$ -                        | \$ (637,543)         | \$ -  |
| (2,875,424)                                     | -                           | (2,875,424)          | -   |
| (1,621,118)                                     | -                           | (1,621,118)          | -   |
| (696,614)                                       | -                           | (696,614)            | -   |
| (91,379)  | -                           | (91,379)             | -   |
| (5,922,078)                                     | -                           | (5,922,078)          | -   |
| -   | 271,825                     | 271,825              | -   |
| -   | 323,084                     | 323,084              | -   |
| -   | 283                         | 283                  | -   |
| -   | 595,192                     | 595,192              | -   |
| (5,922,078)                                     | 595,192                     | (5,326,886)          | -   |
| -   | -                           | -                    | (76,572)  |
| 4,812,933                                       | -                           | 4,812,933            | 65,971  |
| 455,383   | -                           | 455,383              | -   |
| 260,517   | 317,429                     | 577,946              | -   |
| 112,500   | -                           | 112,500              | -   |
| 146,306   | -                           | 146,306              | -   |
| 5,787,639                                       | 317,429                     | 6,105,068            | 65,971  |
| (134,439)                                       | 912,621                     | 778,182              | (10,601)  |
| 13,258,620                                      | 11,862,610                  | 25,121,230           | 69,537  |
| <b>\$ 13,124,181</b>                            | <b>\$ 12,775,231</b>        | <b>\$ 25,899,412</b> | <b>\$ 58,936</b>  |

# City of Grosse Pointe, Michigan

## Governmental Funds Balance Sheet June 30, 2012

|  | General Fund        | Capital Projects<br>Fund | Nonmajor<br>Governmental<br>Funds | Total                |
|--|---------------------|--------------------------|-----------------------------------|----------------------|
| <b>Assets</b>                              |                     |                          |                                   |                      |
| Cash and cash equivalents (Note 3)         | \$ 4,997,905        | \$ -                     | \$ 324,631                        | \$ 5,322,536         |
| Receivables - Net:                         |                     |                          |                                   |                      |
| Property taxes receivable                  | 6,683               | -                        | -                                 | 6,683                |
| Accrued interest receivable                | 13,325              | -                        | -                                 | 13,325               |
| Other receivables                          | 172,543             | -                        | -                                 | 172,543              |
| Due from other governmental units          | 138,528             | -                        | 51,024                            | 189,552              |
| Due from other funds (Note 4)              | -                   | 3,583,273                | -                                 | 3,583,273            |
| Prepaid expenses and other assets          | 63,702              | -                        | 9,767                             | 73,469               |
| Advances to other funds (Note 4)           | 1,112,202           | -                        | -                                 | 1,112,202            |
| <b>Total assets</b>                        | <b>\$ 6,504,888</b> | <b>\$ 3,583,273</b>      | <b>\$ 385,422</b>                 | <b>\$ 10,473,583</b> |
| <b>Liabilities and Fund Balances</b>       |                     |                          |                                   |                      |
| <b>Liabilities</b>                         |                     |                          |                                   |                      |
| Accounts payable                           | \$ 76,203           | \$ 244,414               | \$ 60,643                         | \$ 381,260           |
| Due to other funds (Note 4)                | 3,583,273           | -                        | -                                 | 3,583,273            |
| Deposits                                   | 16,887              | -                        | -                                 | 16,887               |
| Accrued liabilities and other liabilities  | 80,457              | -                        | 6,275                             | 86,732               |
| Unearned revenue                           | 6,683               | -                        | -                                 | 6,683                |
| <b>Total liabilities</b>                   | <b>3,763,503</b>    | <b>244,414</b>           | <b>66,918</b>                     | <b>4,074,835</b>     |
| <b>Fund Balances</b>                       |                     |                          |                                   |                      |
| Nonspendable:                              |                     |                          |                                   |                      |
| Prepays                                    | 63,702              | -                        | 9,767                             | 73,469               |
| Advances to other funds                    | 1,112,202           | -                        | -                                 | 1,112,202            |
| Restricted:                                |                     |                          |                                   |                      |
| Roads                                      | -                   | -                        | 112,273                           | 112,273              |
| Police-restricted use                      | -                   | -                        | 61,070                            | 61,070               |
| Budget stabilization                       | 475,000             | -                        | -                                 | 475,000              |
| Solid waste                                | -                   | -                        | 89,026                            | 89,026               |
| Assigned:                                  |                     |                          |                                   |                      |
| Solid waste                                | -                   | -                        | 29,785                            | 29,785               |
| Capital projects                           | -                   | 3,338,859                | -                                 | 3,338,859            |
| Debt service                               | -                   | -                        | 16,583                            | 16,583               |
| Unassigned                                 | 1,090,481           | -                        | -                                 | 1,090,481            |
| <b>Total fund balances</b>                 | <b>2,741,385</b>    | <b>3,338,859</b>         | <b>318,504</b>                    | <b>6,398,748</b>     |
| <b>Total liabilities and fund balances</b> | <b>\$ 6,504,888</b> | <b>\$ 3,583,273</b>      | <b>\$ 385,422</b>                 | <b>\$ 10,473,583</b> |

# City of Grosse Pointe, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2012

|  |                             |
|--|-----------------------------|
| <b>Fund Balance Reported in Governmental Funds</b>   | \$ 6,398,748                |
| Amounts reported for governmental activities in the statement of net assets are different because:                             |                             |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds                   | 10,420,898                  |
| Investment in Grosse Pointes - Clinton Refuse Disposal Authority is not being reported in the funds                            | 7,377                       |
| Certain revenue in the governmental funds is deferred and will be recognized as revenue in the fund statements in future years | 6,683                       |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds                          | (2,315,000)                 |
| Accrued interest is not due and payable in the current period and is not reported in the funds                                 | (21,497)                    |
| Compensated absences are not due and payable in the current period and are not reported in the funds                           | (476,794)                   |
| Net other postemployment benefits obligation is not due and payable in the current period and is not reported in the funds     | <u>(896,234)</u>            |
| <b>Net Assets of Governmental Activities</b>   | <b><u>\$ 13,124,181</u></b> |

# City of Grosse Pointe, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

|  | General Fund        | Capital<br>Projects Fund | Nonmajor<br>Governmental<br>Funds | Total               |
|--|---------------------|--------------------------|-----------------------------------|---------------------|
| <b>Revenue</b>                                     |                     |                          |                                   |                     |
| Property taxes                                     | \$ 4,036,491        | \$ -                     | \$ 776,674                        | \$ 4,813,165        |
| Licenses and permits                               | 177,903             | -                        | -                                 | 177,903             |
| Federal sources                                    | -                   | 185,919                  | -                                 | 185,919             |
| State sources                                      | 455,383             | -                        | 309,499                           | 764,882             |
| Charges for services                               | 165,664             | -                        | 119,634                           | 285,298             |
| Fines and forfeitures                              | 235,845             | -                        | -                                 | 235,845             |
| Investment income                                  | 265,373             | -                        | 36                                | 265,409             |
| Other revenue                                      | 538,853             | -                        | 24,866                            | 563,719             |
| Total revenue                                      | 5,875,512           | 185,919                  | 1,230,709                         | 7,292,140           |
| <b>Expenditures - Current</b>                      |                     |                          |                                   |                     |
| General government                                 | 1,353,642           | -                        | -                                 | 1,353,642           |
| Judicial   | 109,523             | -                        | -                                 | 109,523             |
| Public safety                                      | 2,813,208           | -                        | 2,929                             | 2,816,137           |
| Public works                                       | 456,188             | -                        | 1,129,700                         | 1,585,888           |
| Recreation and culture                             | 512,987             | -                        | -                                 | 512,987             |
| Capital outlay                                     | 3,745               | 717,361                  | 231,625                           | 952,731             |
| Debt service:                                      |                     |                          |                                   |                     |
| Principal  | -                   | -                        | 340,000                           | 340,000             |
| Interest and other charges                         | -                   | -                        | 97,120                            | 97,120              |
| Total expenditures                                 | 5,249,293           | 717,361                  | 1,801,374                         | 7,768,028           |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 626,219             | (531,442)                | (570,665)                         | (475,888)           |
| <b>Other Financing Sources (Uses)</b>              |                     |                          |                                   |                     |
| Transfers in (Note 4)                              | -                   | 250,000                  | 604,949                           | 854,949             |
| Transfers out (Note 4)                             | (662,965)           | (191,984)                | -                                 | (854,949)           |
| Total other financing (uses) sources               | (662,965)           | 58,016                   | 604,949                           | -                   |
| <b>Net Change in Fund Balances</b>                 | (36,746)            | (473,426)                | 34,284                            | (475,888)           |
| <b>Fund Balances - Beginning of year</b>           | 2,778,131           | 3,812,285                | 284,220                           | 6,874,636           |
| <b>Fund Balances - End of year</b>                 | <u>\$ 2,741,385</u> | <u>\$ 3,338,859</u>      | <u>\$ 318,504</u>                 | <u>\$ 6,398,748</u> |

# City of Grosse Pointe, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2012

|  |                            |
|--|----------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | \$ (475,888)               |
| 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, these costs are allocated over their estimated useful lives as depreciation: |                            |
| Capital outlay   | 1,067,912                  |
| Depreciation expense   | (1,149,178)                |
| Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end                        | (232)                      |
| Change in accrued interest payable and other   | 5,741                      |
| Other Postemployment benefit obligation is recognized in the statement of activities, but not in the governmental funds  | 32,834                     |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)                                | 340,000                    |
| Decrease in accumulated employee sick and vacation pay is recorded when paid in the governmental funds   | 49,264                     |
| Income from Grosse Pointes - Clinton Refuse Disposal Authority is not recorded in funds  | (4,892)                    |
| <b>Change in Net Assets of Governmental Activities</b>   | <u><u>\$ (134,439)</u></u> |



# City of Grosse Pointe, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2012

|  | Enterprise Funds                       |                              |                   |                      |
|--|--|------------------------------|-------------------|----------------------|
|  | Water and<br>Sewage Disposal<br>System | Automobile<br>Parking System | Marina            | Total                |
| <b>Assets</b>                                    |  |                              |                   |                      |
| Current assets:                                  |  |                              |                   |                      |
| Cash and investments                             | \$ 3,728,778                           | \$ 3,290,855                 | \$ 125,604        | \$ 7,145,237         |
| Receivables - Net:                               |  |                              |                   |                      |
| Customers  | 697,021                                | -                            | -                 | 697,021              |
| Interest   | 29,145                                 | 8,543                        | -                 | 37,688               |
| Other  | -                                      | 117,942                      | -                 | 117,942              |
| Prepaid expenses and other assets                | 3,058                                  | 2,990                        | 231               | 6,279                |
| Total current assets                             | 4,458,002                              | 3,420,330                    | 125,835           | 8,004,167            |
| Noncurrent assets:                               |  |                              |                   |                      |
| Restricted assets (Note 1)                       | 952,001                                | -                            | -                 | 952,001              |
| Capital assets (Note 5):                         |  |                              |                   |                      |
| Assets not subject to depreciation               | 579,650                                | 952,426                      | -                 | 1,532,076            |
| Assets subject to depreciation                   | 3,491,535                              | 4,048,099                    | 1,599,163         | 9,138,797            |
| Total noncurrent assets                          | 5,023,186                              | 5,000,525                    | 1,599,163         | 11,622,874           |
| Total assets                                     | 9,481,188                              | 8,420,855                    | 1,724,998         | 19,627,041           |
| <b>Liabilities</b>                               |  |                              |                   |                      |
| Current liabilities:                             |  |                              |                   |                      |
| Accounts payable                                 | 572,188                                | 5,190                        | 2,664             | 580,042              |
| Accrued liabilities and other                    | 3,838                                  | 33,702                       | -                 | 37,540               |
| Unearned revenue                                 | -                                      | 19,030                       | -                 | 19,030               |
| Compensated absences                             | 14,690                                 | 11,730                       | 484               | 26,904               |
| Current portion of long-term debt (Note 6)       | 20,000                                 | 100,000                      | -                 | 120,000              |
| Total current liabilities                        | 610,716                                | 169,652                      | 3,148             | 783,516              |
| Noncurrent liabilities:                          |  |                              |                   |                      |
| Advances from other funds (Note 4)               | -                                      | -                            | 1,112,202         | 1,112,202            |
| Compensated absences                             | 11,877                                 | 9,585                        | -                 | 21,462               |
| Net OPEB obligation (Note 9)                     | 69,994                                 | 46,970                       | 7,666             | 124,630              |
| Long-term debt (Note 6)                          | 1,660,000                              | 3,150,000                    | -                 | 4,810,000            |
| Total noncurrent liabilities                     | 1,741,871                              | 3,206,555                    | 1,119,868         | 6,068,294            |
| Total liabilities                                | 2,352,587                              | 3,376,207                    | 1,123,016         | 6,851,810            |
| <b>Net Assets</b>                                |  |                              |                   |                      |
| Invested in capital assets - Net of related debt | 3,343,186                              | 1,750,525                    | 1,599,163         | 6,692,874            |
| Unrestricted                                     | 3,785,415                              | 3,294,123                    | (997,181)         | 6,082,357            |
| Total net assets                                 | <u>\$ 7,128,601</u>                    | <u>\$ 5,044,648</u>          | <u>\$ 601,982</u> | <u>\$ 12,775,231</u> |

# City of Grosse Pointe, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

|   | Enterprise Funds                          |                              |                   |                      |
|---|---|------------------------------|-------------------|----------------------|
|   | Water and<br>Sewage<br>Disposal<br>System | Automobile<br>Parking System | Marina            | Total                |
| <b>Operating Revenue</b>                |   |                              |                   |                      |
| Customer billings                       | \$ 2,218,182                              | \$ -                         | \$ -              | \$ 2,218,182         |
| Parking lot and meter charges           | -   | 948,687                      | -                 | 948,687              |
| Marina rentals and charges for services | -   | -                            | 162,951           | 162,951              |
| Miscellaneous revenue                   | 17,069                                    | -                            | -                 | 17,069               |
| Total operating revenue                 | 2,235,251                                 | 948,687                      | 162,951           | 3,346,889            |
| <b>Operating Expenses</b>               |   |                              |                   |                      |
| Cost of water                           | 411,863                                   | -                            | -                 | 411,863              |
| Cost of sewage treatment                | 813,462                                   | -                            | -                 | 813,462              |
| Operating and maintenance               | 364,350                                   | 193,219                      | 51,103            | 608,672              |
| General and administrative              | 143,187                                   | 119,056                      | -                 | 262,243              |
| Depreciation                            | 218,761                                   | 181,490                      | 76,303            | 476,554              |
| Total operating expenses                | 1,951,623                                 | 493,765                      | 127,406           | 2,572,794            |
| <b>Operating Income</b>                 | 283,628                                   | 454,922                      | 35,545            | 774,095              |
| <b>Nonoperating Revenue (Expenses)</b>  |   |                              |                   |                      |
| Investment income                       | 189,162                                   | 128,267                      | -                 | 317,429              |
| Interest expense                        | (11,803)                                  | (131,838)                    | (35,262)          | (178,903)            |
| <b>Change in Net Assets</b>             | 460,987                                   | 451,351                      | 283               | 912,621              |
| <b>Net Assets - Beginning of year</b>   | 6,667,614                                 | 4,593,297                    | 601,699           | 11,862,610           |
| <b>Net Assets - End of year</b>         | <b>\$ 7,128,601</b>                       | <b>\$ 5,044,648</b>          | <b>\$ 601,982</b> | <b>\$ 12,775,231</b> |

# City of Grosse Pointe, Michigan

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

|  | Enterprise Funds                       |                              |                          |                            |
|--|--|------------------------------|--------------------------|----------------------------|
|  | Water and<br>Sewage Disposal<br>System | Automobile<br>Parking System | Marina                   | Total                      |
| <b>Cash Flows from Operating Activities</b>                                      |  |                              |                          |                            |
| Receipts from customers  | \$ 2,083,597                           | \$ 948,687                   | \$ 162,951               | \$ 3,195,235               |
| Receipts from interfund services and reimbursements                              | 713,516                                | (230,129)                    | -                        | 483,387                    |
| Payments to suppliers  | (1,230,586)                            | (112,875)                    | (26,762)                 | (1,370,223)                |
| Payments to employees  | (199,303)                              | (182,314)                    | (19,936)                 | (401,553)                  |
| Other payments   | -                                      | 26,503                       | -                        | 26,503                     |
| Net cash provided by operating activities  | <u>1,367,224</u>                       | <u>449,872</u>               | <u>116,253</u>           | <u>1,933,349</u>           |
| <b>Cash Flows from Capital and Related Financing Activities</b>                  |  |                              |                          |                            |
| Proceeds from the issuance of bonds  | 1,220,000                              | -                            | -                        | 1,220,000                  |
| Purchase of capital assets   | (682,969)                              | (72,570)                     | -                        | (755,539)                  |
| Principal and interest paid on capital debt                                      | (31,857)                               | (232,838)                    | (35,262)                 | (299,957)                  |
| Repayments of loans from other funds for capital purposes                        | -                                      | -                            | (63,197)                 | (63,197)                   |
| Net cash provided by (used in) capital and related financing activities          | <u>505,174</u>                         | <u>(305,408)</u>             | <u>(98,459)</u>          | <u>101,307</u>             |
| <b>Cash Flows from Investing Activities -</b>                                    |  |                              |                          |                            |
| Interest received on investments   | <u>186,428</u>                         | <u>136,436</u>               | <u>-</u>                 | <u>322,864</u>             |
| <b>Net Increase in Cash and Cash Equivalents</b>                                 | <u>2,058,826</u>                       | <u>280,900</u>               | <u>17,794</u>            | <u>2,357,520</u>           |
| <b>Cash and Cash Equivalents - Beginning of year</b>                             | <u>2,621,953</u>                       | <u>3,009,955</u>             | <u>107,810</u>           | <u>5,739,718</u>           |
| <b>Cash and Cash Equivalents - End of year</b>                                   | <u><b>\$ 4,680,779</b></u>             | <u><b>\$ 3,290,855</b></u>   | <u><b>\$ 125,604</b></u> | <u><b>\$ 8,097,238</b></u> |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>                 |  |                              |                          |                            |
| Cash and investments   | \$ 3,728,778                           | \$ 3,290,855                 | \$ 125,604               | \$ 7,145,237               |
| Restricted cash  | 952,001                                | -                            | -                        | 952,001                    |
| Total cash and cash equivalents  | <u><b>\$ 4,680,779</b></u>             | <u><b>\$ 3,290,855</b></u>   | <u><b>\$ 125,604</b></u> | <u><b>\$ 8,097,238</b></u> |
| <b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>  |  |                              |                          |                            |
| Operating income   | \$ 283,628                             | \$ 454,922                   | \$ 35,545                | \$ 774,095                 |
| Adjustments to reconcile operating income to net cash from operating activities: |  |                              |                          |                            |
| Depreciation and amortization  | 218,761                                | 181,490                      | 76,303                   | 476,554                    |
| Changes in assets and liabilities:   |  |                              |                          |                            |
| Receivables  | (151,655)                              | 26,503                       | -                        | (125,152)                  |
| Due from other funds   | 725,082                                | (230,129)                    | -                        | 494,953                    |
| Prepaid and other assets   | -                                      | (138)                        | (51)                     | (189)                      |
| Accounts payable   | 276,440                                | 1,500                        | 2,436                    | 280,376                    |
| Due to others  | (11,566)                               | -                            | -                        | (11,566)                   |
| Accrued and other liabilities  | (1,528)                                | (422)                        | (1,093)                  | (3,043)                    |
| Net Postemployment healthcare obligation   | 28,062                                 | 16,146                       | 3,113                    | 47,321                     |
| Net cash provided by operating activities  | <u><b>\$ 1,367,224</b></u>             | <u><b>\$ 449,872</b></u>     | <u><b>\$ 116,253</b></u> | <u><b>\$ 1,933,349</b></u> |

The Notes to Financial Statements are an Integral Part of this Statement.

# City of Grosse Pointe, Michigan

## **Fiduciary Funds** **Statement of Fiduciary Net Assets - Pension and Other** **Postemployment Benefit Plans** **June 30, 2012**

|  | Pension and<br>Other<br>Postemployment<br>Health Benefit<br>Trust Funds |
|--|---|
| <b>Assets</b>  |   |
| Cash and cash equivalents  | \$ 675,800  |
| Investments:   |   |
| Corporate bonds and notes  | 8,633,983   |
| Common and preferred stock   | 21,115,930  |
| Mutual funds   | 2,203,564   |
| Foreign bonds  | 258,000   |
| Other receivable   | 176,992   |
| Prepaid expenses   | 147,777   |
| Total assets   | <u>33,212,046</u>   |
| <b>Liabilities - Accounts payable</b>  | <u>150,659</u>  |
| <b>Net Assets Held in Trust for Pension and Other Postemployment Health Benefits</b> | <u><u>\$ 33,061,387</u></u>   |

# City of Grosse Pointe, Michigan

## **Fiduciary Fund** **Statement of Changes in Fiduciary Net Assets - Pension and Other** **Postemployment Benefit Plans** **Year Ended June 30, 2012**

|   | Pension and<br>Other<br>Postemployment<br>Health Benefit<br>Trust Funds |
|---|---|
| <b>Additions</b>                                |   |
| Investment income:                              |   |
| Interest and dividends                          | \$ 1,165,168  |
| Net increase in fair value of investments       | 1,432,821   |
| Investment-related expenses                     | <u>(379,881)</u>  |
| Net investment income                           | 2,218,108   |
| Contributions:                                  |   |
| Employer contributions                          | 588,255   |
| Employee contributions                          | <u>225,489</u>  |
| Total contributions                             | <u>813,744</u>  |
| Total additions                                 | 3,031,852   |
| <b>Deductions</b>                               |   |
| Benefit payments                                | 1,457,042   |
| Health insurance payments                       | <u>489,918</u>  |
| Total deductions                                | <u>1,946,960</u>  |
| <b>Net Increase in Net Assets Held in Trust</b> | 1,084,892   |
| <b>Net Assets - Beginning of year</b>           | <u>31,976,495</u>   |
| <b>Net Assets - End of year</b>                 | <u><u>\$ 33,061,387</u></u>   |

# City of Grosse Pointe, Michigan

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## Notes to Financial Statements June 30, 2012

### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of the City of Grosse Pointe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Grosse Pointe, Michigan:

#### **Reporting Entity**

The City of Grosse Pointe, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although the blended component unit is a legal separate entity, in substance, it is part of the City's operations.

**Blended Component Unit** - The City's Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. There are Building Authority bonds outstanding as of year end; however, there is no activity related to the component unit.

**Discretely Presented Component Unit** - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. There are no differences between the Authority's modified accrual statements and the full accrual statements. The Authority does not issue separate financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, 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.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (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 revenue are reported instead as general revenue.

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue susceptible to accrual includes property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The City reports deferred revenue on its governmental funds balance sheet. Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.



### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Projects Fund** - The Capital Projects Fund accounts for large capital improvements and purchases.

The City reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and the sewage and storm water collection systems. Funding is provided primarily through user charges.

**Automobile Parking Fund** - The Automobile Parking Fund accounts for the activities of the City's parking lots. Funding is provided primarily through user charges.

**Marina Fund** - The Marina Fund accounts for the activities of the City's marina. Funding is provided primarily through user charges.

Additionally, the City reports the following fund types:

**Special Revenue Funds** - These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

**Debt Service Fund** - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

**Pension Trust Fund** - The Pension Trust Fund accounts for the activities of the employees' retirement system, which accumulates resources for retirement benefits.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Postemployment Health Benefits Trust Fund** - The Postemployment Health Benefits Trust Fund accounts for the Postemployment healthcare payments to qualified employees.

#### **Property Taxes**

Properties are assessed as of December 31. The related property taxes are billed on the following July 1 and October 1. The first half of the property taxes is due without penalty by August 10 and the second half of the property taxes is due without penalty by November 10. The final local collection date is February 28.

The 2011 taxable valuation of the City totaled \$323 million (a portion of which is captured by the DDA), on which ad valorem taxes levied consisted of 11.8391 mills for the City's operating purposes, 1.7755 mills for rubbish collection, and .6344 mills for City debt. The ad valorem taxes levied, net of related captures, raised \$4.0 million for operations, \$570,000 for rubbish collection (taxes are reflected in the Solid Waste Fund), and \$205,000 for City debt.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Unspent bond proceeds of the Water and Sewer Fund are required to be set aside for construction. These amounts have also been classified as restricted assets.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

|                                |                |
|--------------------------------|----------------|
| Buildings                      | 25 years       |
| Vehicles and equipment         | 5 to 25 years  |
| Improvements                   | 5 to 25 years  |
| Elworthy parks and recreation  | 10 to 40 years |
| Other                          | 2 to 10 years  |
| Infrastructure                 | 5 to 10 years  |
| Water and sewer infrastructure | 40 to 50 years |
| Sewer rehabilitation           | 40 to 50 years |
| Parking lot improvements       | 13 years       |
| Parking structure              | 30 years       |
| Parking meters                 | 15 years       |
| Marina                         | 30 years       |
| Kayak landing and storage      | 20 years       |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours, up to a certain limit depending on the employee's job category. Unused vacation leave hours are recorded at 100 percent of unused vacation hours. The liability for sick and vacation time is recorded in the government-wide and proprietary fund financial statements.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the City Council or City manager, who is authorized by resolution approved by the City Council to make assignments
- **Unassigned:** All other amounts, available for any purpose

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The City Council has adopted, by ordinance, a Budget Stabilization Fund under Michigan's Public Act 30 of 1978. The City Council may, with a 2/3 vote, set aside General Fund surplus, up to a maximum of 15 percent of the most recent General Fund budget (or average of the five most recent budgets, if less). An appropriation from the Budget Stabilization Fund, which also requires a 2/3 vote of the City Council, may only occur to correct a budget shortfall or in the case of a natural disaster. The balance at June 30, 2012 of the stabilization amount, which is reported in the General Fund, is \$475,000.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

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

|                                       |                     |
|---------------------------------------|---------------------|
| Shortfall at July 1, 2011             | \$ (190,730)        |
| Current year permit revenue           | 163,518             |
| Less direct costs                     | <u>92,673</u>       |
| Current year surplus                  | <u>70,845</u>       |
| Cumulative shortfall at June 30, 2012 | <u>\$ (119,885)</u> |

**Budgetary Information** - The annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end, except for those approved by the City Council for carryforward. The legal level of budgetary control is the functional level for the General Fund and the fund level for Special Revenue Funds.

The budget statements (budgetary combined schedules for the General Fund and major Special Revenue Fund) are presented on the same basis of accounting used in preparing the adopted budget.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

A comparison of actual results of operations to the General Fund and major Special Revenue Fund budgets as adopted by the City Council is included in the required supplemental information. A comparison of the actual results of operations to the nonmajor Special Revenue Fund budgets as adopted by the City Council is available at the City Hall for inspection.

The City Council requires the City's director of finance to submit an estimate of revenue and anticipated expenditures for the succeeding fiscal year in May. The City's director of finance is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenue that is specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase in net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds, or notes, the total of which is not significant in relation to the original budget appropriation valuations.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; bankers' acceptances of United States banks; commercial paper, which matures not more than 270 days after the date of purchase; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967; investment pools organized under the Surplus Investment Act of 1982; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Retirement System and the Other Postemployment Health Benefit Plan are also authorized by Michigan's Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

### **Note 3 - Deposits and Investments (Continued)**

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs of federally insured financial institutions, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds, but not the remainder of state statutory authority as listed above. The City of Grosse Pointe, Michigan's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk. At year end, the City's primary government had \$3,272,334 of bank deposits (certificates of deposit, checking, and savings accounts). Of that amount, approximately \$1,070,700 was covered by federal depository insurance. At year end, the Downtown Development Authority had \$58,936 of bank deposits, which were uninsured.

As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with maximum of a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment  | Fair Value | Less than<br>1 Year | 1 to 5<br>Years | 6 to 10<br>Years | More than<br>10 Years |
|---|------------|---------------------|-----------------|------------------|-----------------------|
| <b>Primary Government</b>                                   |            |                     |                 |                  |                       |
| Federal Home Loan Mortgage<br>Corp. Freddie NTS             | \$ 915,661 | \$ -                | \$ -            | \$ -             | \$ 915,661            |
| Federal National Mortgage<br>Association Medium Term<br>NTS | 3,169,197  | -                   | -               | 103,346          | 3,065,851             |
| Federal Home Loan Mortgage<br>Corp Medium Term NTS          | 699,936    | -                   | -               | 100,544          | 599,392               |
| Federal Farm CR Banks Cons.<br>Systemwide Bonds             | 427,472    | -                   | -               | -                | 427,472               |
| Federal Home Loan Bank Step<br>Up                           | 1,875,161  | -                   | -               | 951,330          | 923,831               |
| Negotiable certificates of<br>deposit                       | 3,366,106  | 508,602             | 2,049,723       | 606,454          | 201,327               |
| <b>Fiduciary Funds</b>                                      |            |                     |                 |                  |                       |
| Corporate - Fixed   | 8,633,983  | 859,790             | 3,899,673       | 3,874,520        | -                     |
| Foreign bonds - Fixed                                       | 258,000    | -                   | 258,000         | -                | -                     |



# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment  | Fair Value | Rating        | Rating Organization |
|---|------------|---------------|---------------------|
| <b>Primary Government</b>                             |            |               |                     |
| Federal Home Loan Mortgage Corp. Freddie NTS          | \$ 915,661 | AAA           | S&P                 |
| Federal National Mortgage Association Medium Term NTS | 3,169,197  | AAA           | S&P                 |
| Federal Home Loan Mortgage Corp Medium Term NTS       | 699,936    | AAA           | S&P                 |
| Federal Farm CR Banks Cons. Systemwide Bonds          | 427,472    | AAA           | S&P                 |
| Federal Home Loan Bank Step Up                        | 1,875,161  | AAA           | S&P                 |
| Negotiable certificates of deposit                    | 3,366,106  | N/R           | N/A                 |
| <b>Fiduciary Funds</b>                                |            |               |                     |
| Corporate bonds                                       | 579,512    | AA            | S&P                 |
| Corporate bonds                                       | 2,500,922  | A             | S&P                 |
| Corporate bonds                                       | 4,570,832  | BBB           | S&P                 |
| Corporate bonds                                       | 367,600    | BB            | S&P                 |
| Corporate bonds                                       | 201,372    | B             | S&P                 |
| Corporate bonds                                       | 213,745    | CCC and below | S&P                 |
| Corporate bonds                                       | 200,000    | N/R           | N/A                 |
| Foreign bonds   | 258,000    | A             | S&P                 |
| Money market fund                                     | 2,203,564  | N/R           | N/A                 |

**Concentration of Credit Risk** - The City places no limit on the amount the City may invest in any one issuer. In the fiduciary funds, more than 5 percent of the City's investments are in Comerica (7 percent) and IBM Corp (6 percent).

More than 5 percent of the City's governmental activities investments are in the following:

| Primary Government                                    | Percent |
|---|---------|
| U.S. government agencies and securities:              |         |
| Federal Home Loan Mortgage Corp. Freddie NTS          | 8.76 %  |
| Federal Home Loan Mortgage Corp. Medium Term NTS      | 6.70 %  |
| Federal National Mortgage Association Medium Term NTS | 30.32 % |
| Federal Home Loan Bank Step Up                        |         |

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund receivables at June 30, 2012 is as follows:

|                       |              |                     |
|-----------------------|--------------|---------------------|
| Capital Projects Fund | General Fund | <u>\$ 3,583,273</u> |
|-----------------------|--------------|---------------------|

These interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

In 2003, the General Fund advanced approximately \$1.5 million to the Marina Fund. The advance is being repaid to the General Fund over 20 years at a 3 percent interest rate. At June 30, 2012, the balance was \$1,112,202.

Interfund transfers reported in the fund financial statements are comprised of the following:

| <u>Fund Transferred From</u> | <u>Fund Transferred To</u>             | <u>Amount</u>     |
|------------------------------|--|-------------------|
| General Fund                 | Capital Projects Fund (3)              | \$ 250,000        |
|                              | Nonmajor governmental funds<br>(1) (2) | <u>412,965</u>    |
|                              | Total General Fund                     | <u>\$ 662,965</u> |
| Capital Projects Fund        | Nonmajor governmental funds (4)        | <u>\$ 191,984</u> |

(1) Transfer allowed under State Law Act 51 for construction and maintenance

(2) Transfer of discretionary funds to offset debt payments

(3) Transfer of funds for capital acquisitions

(4) Transfer of funds for road projects

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| <b>Governmental Activities</b>         | Balance<br>July 1, 2011 | Additions          | Disposals   | Balance<br>June 30, 2012 |
|--|-------------------------|--------------------|-------------|--------------------------|
| Capital assets not being depreciated - |                         |                    |             |                          |
| Land                                   | \$ 1,628,841            | \$ -               | \$ -        | \$ 1,628,841             |
| Construction in progress               | -                       | 703,783            | -           | 703,783                  |
| Subtotal                               | 1,628,841               | 703,783            | -           | 2,332,624                |
| Capital assets being depreciated -     |                         |                    |             |                          |
| Infrastructure:                        | 16,403,710              | 136,420            | -           | 16,540,130               |
| Buildings and improvements             | 4,539,265               | -                  | -           | 4,539,265                |
| Vehicles and equipment                 | 2,347,455               | 227,709            | -           | 2,575,164                |
| Improvements                           | 4,912,347               | -                  | -           | 4,912,347                |
| Elworthy parks and recreation          | 482,072                 | -                  | -           | 482,072                  |
| Other                                  | 775,317                 | -                  | -           | 775,317                  |
| Subtotal                               | 29,460,166              | 364,129            | -           | 29,824,295               |
| Accumulated depreciation:              |                         |                    |             |                          |
| Infrastructure                         | 13,144,689              | 733,750            | -           | 13,878,439               |
| Building                               | 2,036,947               | 113,705            | -           | 2,150,652                |
| Vehicles and equipment                 | 1,726,792               | 96,391             | -           | 1,823,183                |
| Improvements                           | 2,502,311               | 139,681            | -           | 2,641,992                |
| Elworthy parks and recreation          | 445,178                 | 24,850             | -           | 470,028                  |
| Other                                  | 730,926                 | 40,801             | -           | 771,727                  |
| Subtotal                               | 20,586,843              | 1,149,178          | -           | 21,736,021               |
| Net capital assets being depreciated   | 8,873,323               | (785,049)          | -           | 8,088,274                |
| Net capital assets                     | <u>\$ 10,502,164</u>    | <u>\$ (81,266)</u> | <u>\$ -</u> | <u>\$ 10,420,898</u>     |

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 5 - Capital Assets (Continued)

|   | Balance<br>July 1, 2011 | Additions  | Disposals  | Balance<br>June 30, 2012 |
|---|-------------------------|------------|------------|--------------------------|
| <b>Business-type Activities</b>                                 |                         |            |            |                          |
| Water and sewer capital assets:                                 |                         |            |            |                          |
| Capital assets not being depreciated - Construction in progress | \$ 119,411              | \$ 466,387 | \$ (6,148) | \$ 579,650               |
| Capital assets being depreciated:                               |                         |            |            |                          |
| Water infrastructure  | 4,980,289               | -          | -          | 4,980,289                |
| Sewer rehabilitation  | 1,055,311               | 197,782    | -          | 1,253,093                |
| Vehicles and equipment  | 792,203                 | 24,948     | -          | 817,151                  |
| Subtotal  | 6,827,803               | 222,730    | -          | 7,050,533                |
| Accumulated depreciation:                                       |                         |            |            |                          |
| Water and infrastructure  | 2,397,285               | 131,302    | -          | 2,528,587                |
| Sewer rehabilitation  | 515,858                 | 39,118     | -          | 554,976                  |
| Vehicles and equipment  | 427,094                 | 48,341     | -          | 475,435                  |
| Subtotal  | 3,340,237               | 218,761    | -          | 3,558,998                |
| Net capital assets being depreciated                            | 3,487,566               | 3,969      | -          | 3,491,535                |
| Net water and sewer capital assets                              | 3,606,977               | 470,356    | (6,148)    | 4,071,185                |
| Automobile parking system capital assets:                       |                         |            |            |                          |
| Capital assets not being depreciated:                           |                         |            |            |                          |
| Land and land improvements                                      | 893,338                 | -          | -          | 893,338                  |
| Construction in progress  | 25,518                  | 33,570     | -          | 59,088                   |
| Subtotal  | 918,856                 | 33,570     | -          | 952,426                  |
| Capital assets being depreciated:                               |                         |            |            |                          |
| Vehicles and equipment  | 175,707                 | 39,000     | -          | 214,707                  |
| Parking meters  | 210,196                 | -          | -          | 210,196                  |
| Parking lot and improvements                                    | 4,891,575               | -          | -          | 4,891,575                |
| Subtotal  | 5,277,478               | 39,000     | -          | 5,316,478                |
| Accumulated depreciation:                                       |                         |            |            |                          |
| Vehicles and equipment  | 125,410                 | 15,836     | -          | 141,246                  |
| Parking meters  | 166,069                 | 8,760      | -          | 174,829                  |
| Parking lot and improvements                                    | 795,410                 | 156,894    | -          | 952,304                  |
| Subtotal  | 1,086,889               | 181,490    | -          | 1,268,379                |
| Net capital assets being depreciated                            | 4,190,589               | (142,490)  | -          | 4,048,099                |
| Net automobile parking capital assets                           | 5,109,445               | (108,920)  | -          | 5,000,525                |

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 5 - Capital Assets (Continued)

|   | Balance<br>July 1, 2011 | Additions  | Disposals  | Balance<br>June 30, 2012 |
|---|-------------------------|------------|------------|--------------------------|
| Marina capital assets:                    |                         |            |            |                          |
| Capital assets being depreciated:         |                         |            |            |                          |
| Marina                                    | \$ 2,175,034            | \$ -       | \$ -       | \$ 2,175,034             |
| Kayak landing and storage                 | 76,040                  | -          | -          | 76,040                   |
| Subtotal                                  | 2,251,074               | -          | -          | 2,251,074                |
| Accumulated depreciation:                 |                         |            |            |                          |
| Marina                                    | 543,291                 | 72,501     | -          | 615,792                  |
| Kayak landing and storage                 | 32,317                  | 3,802      | -          | 36,119                   |
| Subtotal                                  | 575,608                 | 76,303     | -          | 651,911                  |
| Net capital assets being depreciated      | 1,675,466               | (76,303)   | -          | 1,599,163                |
| Net marina capital assets                 | 1,675,466               | (76,303)   | -          | 1,599,163                |
| Net business-type activity capital assets | \$ 10,391,888           | \$ 285,133 | \$ (6,148) | \$ 10,670,873            |

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

Governmental activities:

|                               |                     |
|-------------------------------|---------------------|
| General government            | \$ 73,134           |
| Public safety                 | 55,020              |
| Public works                  | 790,197             |
| Recreation and culture        | 230,827             |
| Total governmental activities | <u>\$ 1,149,178</u> |

Business-type activities:

|                                |                   |
|--------------------------------|-------------------|
| Water and sewer                | \$ 218,761        |
| Automobile parking             | 181,490           |
| Marina                         | 76,303            |
| Total business-type activities | <u>\$ 476,554</u> |

**Construction Commitments** - The City has an active construction project at year end related to the Mack Avenue water main replacement and streetscape project. The total cost of the project is approximately \$2.2 million, and the cost to complete at year end is approximately \$1.2 million. The project has two components. The water main piece is recorded in the Water and Sewage Disposal Fund. The streetscape piece is recorded in the government-wide statements.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term debt activity can be summarized as follows:

|   | Interest Rate<br>Ranges | Beginning<br>Balance | Additions           | Reductions        | Ending Balance      | Due Within<br>One Year |
|---|-------------------------|----------------------|---------------------|-------------------|---------------------|------------------------|
| <b>Governmental Activities</b>  |                         |                      |                     |                   |                     |                        |
| 2001 Limited Tax General<br>Obligation Building Authority<br>Bonds:                     |                         |                      |                     |                   |                     |                        |
| Amount of issue - \$1,910,000<br>Maturing through 2014                                  | 4.60% - 4.90%           | \$ 715,000           | \$ -                | \$ 175,000        | \$ 540,000          | \$ 175,000             |
| 2010 Unlimited Tax General<br>Obligation Bonds:   |                         |                      |                     |                   |                     |                        |
| Amount of issue - \$1,940,000<br>Maturing through 2020                                  | 2.00% - 4.00%           | 1,940,000            | -                   | 165,000           | 1,775,000           | 165,000                |
| Compensated absences  |                         | 526,058              | 265,007             | 314,271           | 476,794             | 283,857                |
| Total bonds payable   |                         | <u>\$ 3,181,058</u>  | <u>\$ 265,007</u>   | <u>\$ 654,271</u> | <u>\$ 2,791,794</u> | <u>\$ 623,857</u>      |
| <b>Business-type Activities</b>   |                         |                      |                     |                   |                     |                        |
| 2007 Limited Tax Obligation:<br>Capital Improvement Bonds:                              |                         |                      |                     |                   |                     |                        |
| Amount of issue - \$3,600,000<br>Maturing through 2031                                  | 4.00% - 4.10%           | \$ 3,350,000         | \$ -                | \$ 100,000        | \$ 3,250,000        | \$ 100,000             |
| 2012 Limited Tax Obligation<br>Capital Improvement Bonds:                               |                         |                      |                     |                   |                     |                        |
| Amount of issue - \$1,220,000<br>Maturing through 2032                                  | 1.35% - 3.20%           | -                    | 1,220,000           | -                 | 1,220,000           | -                      |
| State Revolving Loan Fund 2009:<br>Amount of issue - \$480,000<br>Maturing through 2031 |                         |                      |                     |                   |                     |                        |
| Compensated absences  | 2.50%                   | 480,000              | -                   | 20,000            | 460,000             | 20,000                 |
|   |                         | 50,901               | 24,577              | 27,112            | 48,366              | 26,904                 |
| Total bonds payable   |                         | <u>\$ 3,880,901</u>  | <u>\$ 1,244,577</u> | <u>\$ 147,112</u> | <u>\$ 4,978,366</u> | <u>\$ 146,904</u>      |

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

| Years Ending<br>June 30 | Governmental Activities |                   |                     | Business-type Activities |                     |                     |
|-------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------|
|                         | Principal               | Interest          | Total               | Principal                | Interest            | Total               |
| 2013                    | \$ 340,000              | \$ 80,228         | \$ 420,228          | \$ 120,000               | \$ 165,633          | \$ 285,633          |
| 2014                    | 330,000                 | 68,785            | 398,785             | 145,000                  | 167,481             | 312,481             |
| 2015                    | 375,000                 | 56,078            | 431,078             | 145,000                  | 162,644             | 307,644             |
| 2016                    | 175,000                 | 46,425            | 221,425             | 150,000                  | 157,773             | 307,773             |
| 2017                    | 200,000                 | 39,800            | 239,800             | 180,000                  | 152,368             | 332,368             |
| 2018-2022               | 895,000                 | 74,700            | 969,700             | 1,020,000                | 666,759             | 1,686,759           |
| 2023-2027               | -                       | -                 | -                   | 1,365,000                | 466,694             | 1,831,694           |
| 2028-2032               | -                       | -                 | -                   | 1,705,000                | 180,940             | 1,885,940           |
| 2032-2033               | -                       | -                 | -                   | 100,000                  | 1,600               | 101,600             |
| Total                   | <u>\$ 2,315,000</u>     | <u>\$ 366,016</u> | <u>\$ 2,681,016</u> | <u>\$ 4,930,000</u>      | <u>\$ 2,121,892</u> | <u>\$ 7,051,892</u> |

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund, Local Streets Fund, and Major Streets Fund. The net pension obligation and the net OPEB obligation will be liquidated from the funds that the individual employee's salaries are paid from, generally the General Fund, Local Streets Fund, Major Streets Fund, Water and Sewage Disposal System Fund, and Automobile Parking System Fund.

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City is self-funding medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe Woods, and the Village of Grosse Pointe Shores. The Village of Grosse Pointe Shores serves as the administrative agent for the program; however, each municipality is responsible for its individual claims.

The City estimates the potential liability for medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The City's calculation is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. As of year end, the City's payments exceeded the potential liability. Changes in the estimated liability for the past two fiscal years are included in the table below.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 7 - Risk Management (Continued)

The City has purchased commercial insurance for all types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

|   | Medical Claims   |                  |
|---|------------------|------------------|
|   | 2012             | 2011             |
| Unpaid claims - Beginning of year                           | \$ -             | \$ -             |
| Incurred claims, including claims incurred but not reported | 600,153          | 640,275          |
| Claim payments  | <u>(600,153)</u> | <u>(640,275)</u> |
| Unpaid claims - End of year                                 | <u>\$ -</u>      | <u>\$ -</u>      |

### Note 8 - Retirement Plan

**Plan Description** - The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe; this plan covers all full-time employees of the City. The system provides retirement and postemployment benefits as well as disability and death benefits to plan members and their beneficiaries. At June 30, 2011, the date of the most recent actuarial valuation, membership consisted of 46 retirees and beneficiaries currently receiving benefits and two terminated employees entitled to benefits but not yet receiving them and 46 current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and other employee groups and requires a contribution from public safety employees of 6 percent and all City employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

**Annual Pension Cost** - For the year ended June 30, 2012, the City's annual pension costs were \$33,487. The City made the required contribution during the year.



# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 8 - Retirement Plan (Continued)

The three-year trend information as of June 30 is as follows:

|                               | Fiscal Year Ended June 30 |           |           |
|-------------------------------|---------------------------|-----------|-----------|
|                               | 2010                      | 2011      | 2012      |
| Annual pension cost (APC)     | \$ -                      | \$ 33,431 | \$ 33,487 |
| Percentage of APC contributed | -                         | 100 %     | 100 %     |
| Net pension obligation        | \$ -                      | \$ -      | \$ -      |

**Funded Status and Funding Progress** - The funding status for the three most recent years is as follows:

|   | Fiscal Year Ended June 30 |                |                |
|---|---------------------------|----------------|----------------|
|   | 2009                      | 2010           | 2011           |
| Actuarial value of assets                     | \$ 29,085,622             | \$ 28,803,389  | \$ 28,300,208  |
| Actuarial accrued liability (AAL) (entry age) | \$ 25,037,109             | \$ 25,350,064  | \$ 26,145,879  |
| Unfunded AAL (UAAL)                           | \$ (4,048,513)            | \$ (3,453,325) | \$ (2,154,329) |
| Funded ratio                                  | 116.2 %                   | 113.6 %        | 108.2 %        |
| Covered payroll                               | \$ 3,639,483              | \$ 3,370,387   | \$ 3,054,414   |
| UAAL as a percentage of covered payroll       | (111.2)%                  | (102.5)%       | (70.5)%        |

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

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at June 30, 2010 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of 4.5 percent to 8.5 percent per year. An inflation component of 4.5 percent is included in (b) above. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 10 years.

**Reserves** - The reserve for employee contributions is a legally required reserve and at June 30, 2012 the reserve was \$3,130,852.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 9 - Other Postemployment Benefits

**Plan Description** - This is a single employer defined benefit plan administered by the City. The City provides health care to all full-time employees upon retirement, in accordance with labor contracts and with the City of Grosse Pointe Postemployment Health Care Benefits Plan (the "Plan"). The Plan was established by ordinance and created by a 420 transfer from excess reserves in the City of Grosse Pointe Employees' Retirement System Fund on June 30, 2006. At June 30, 2009, the date of the most recent actuarial valuation, membership consisted of 46 retirees who are eligible and receiving benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with some retired employee groups contributing a portion of the cost. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The Plan has been closed to nonunion employees hired on or after July 1, 2007. The Plan does not issue a separate financial report. Administrative costs are paid by the Plan.

**Funding Policy** - Employees covered by the Plan are not required to make any contributions to the Plan. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. Expenditures for postemployment healthcare benefits were paid by the Postemployment Health Benefits Trust as the insurance premiums became due; during the year, this amounted to \$489,918. In the current fiscal year, employer contributions of \$25,768 for premium payments were made to the healthcare plan along with \$529,000 advance funding.

**Funding Progress** - For the year ended June 30, 2012, the City was required to contribute \$526,121 toward the Postemployment Benefit Fund.

|   |                     |
|---|---------------------|
| Annual required contribution (recommended)          | \$ 526,121          |
| Interest on the prior year's net OPEB obligation    | 75,478              |
| Less adjustment to the annual required contribution | <u>(32,344)</u>     |
| Annual OPEB cost                                    | 569,255             |
| Amounts contributed:                                |                     |
| Payments of current premiums                        | (25,768)            |
| Advance funding                                     | <u>(529,000)</u>    |
| Increase in net OPEB obligation                     | 14,487              |
| OPEB obligation - Beginning of year                 | <u>1,006,377</u>    |
| OPEB obligation - End of year                       | <u>\$ 1,020,864</u> |

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 9 - Other Postemployment Benefits (Continued)

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

| Fiscal Year<br>Ended | Actuarial<br>Valuation Date | Annual<br>Required<br>Contribution * | Annual<br>OPEB Costs | Employer Contributions              |   | Net OPEB<br>Obligation |
|----------------------|-----------------------------|--------------------------------------|----------------------|-------------------------------------|---|------------------------|
|                      |                             |                                      |                      | Percentage<br>of ARC<br>Contributed | Percentage<br>OPEB Costs<br>Contributed |                        |
| 6/30/10              | 6/30/09                     | \$ 599,141                           | \$ 599,141           | 12.1 %                              | 11.2 %                                  | \$ 113,186             |
| 6/30/11              | 6/30/09                     | 526,483                              | 531,466              | 10.9                                | 10.4                                    | 1,006,377              |
| 6/30/12              | 6/30/09                     | 526,121                              | 569,255              | 105.4                               | 97.5                                    | 1,020,864              |

\* The required contribution is expressed to the City as a percentage of payroll.

The funding progress of the plan is as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) (b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/06                        | \$ 1,543,474                           | \$ 6,921,083                                   | \$ 5,377,609                    | 22.3 %                             | \$ 3,063,467              | 175.5 %  |
| 6/30/09                        | 1,243,272                              | 9,319,881                                      | 8,076,609                       | 13.3                               | 3,594,966                 | 224.7  |

**Actuarial Methods and Assumptions** - 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, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, 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 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2012

### Note 9 - Other Postemployment Benefits (Continued)

In the June 30, 2009 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by 0.5 percent decrements to an ultimate rate of 4.5 percent after eight years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012 was 28 years.

### Note 10 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the Pension Trust Fund and Postemployment Health Benefits Trust Fund:

|  | Pension Trust<br>Fund | Postemployment<br>Health Benefits<br>Trust Fund |
|--|-----------------------|---|
| <b><u>Statement of Net Assets</u></b>            |                       |   |
| Cash and investments                             | \$ 32,028,134         | \$ 859,143                                      |
| Other assets                                     | 298,014               | 26,755  |
| Liabilities                                      | <u>(141,339)</u>      | <u>(9,320)</u>                                  |
| Net assets                                       | <u>\$ 32,184,809</u>  | <u>\$ 876,578</u>                               |
| <b><u>Statement of Changes in Net Assets</u></b> |                       |   |
| Investment income (loss)                         | \$ 2,598,911          | \$ (922)  |
| Contributions                                    | 212,257               | 601,487   |
| Other expenses                                   | (373,664)             | (6,217)   |
| Benefit payments                                 | <u>(1,457,042)</u>    | <u>(489,918)</u>                                |
| Net change in net assets                         | <u>\$ 980,462</u>     | <u>\$ 104,430</u>                               |

### Note 11 - Joint Venture

The City is a member of the Grosse Pointes - Clinton Refuse Disposal Authority joint venture (the "Authority"), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. The City Council appoints one member to the Authority's governing board, which then approves its budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

# City of Grosse Pointe, Michigan

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## Notes to Financial Statements June 30, 2012

### **Note 11 - Joint Venture (Continued)**

The City's interest in the net assets of the Authority totaled approximately \$7,500 at June 30, 2012 and is reported as part of the governmental activities in the statement of net assets. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

### **Note 12 - Defined Compensation Plan**

Full-time employees of the City may participate in the ICMA-RC Deferred Compensation Plan if they so desire. Employees may contribute a portion of their wages, on a tax-deferred basis, to the plan. The City will contribute on a matching basis between 3 percent and 8 percent depending on job classification. In fiscal year 2012, the City's contribution towards the deferred compensation plan was approximately \$87,000.

### **Note 13 - Upcoming Accounting Pronouncements**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2012-2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA committee on accounting procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2012-2013 fiscal year.

### **Note 13 - Upcoming Accounting Pronouncements (Continued)**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City's 2013-2014 fiscal year.

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplementary information (RSI). Statement No. 67 is required to be adopted for June 30, 2014 and Statement No. 68 one year later.

## **Required Supplemental Information**

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# City of Grosse Pointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

|  | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended<br>Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| <b>Revenue</b>                             |                     |                     |                     |                                    |
| Property taxes                             | \$ 3,997,361        | \$ 4,017,361        | \$ 4,036,491        | \$ 19,130                          |
| Licenses and permits                       | 79,700              | 159,700             | 177,903             | 18,203                             |
| Federal grants                             | 5,900               | 5,900               | -                   | (5,900)                            |
| State-shared revenue and grants            | 381,218             | 438,218             | 455,383             | 17,165                             |
| Charges for services                       | 148,475             | 159,475             | 165,664             | 6,189                              |
| Fines and forfeitures                      | 200,100             | 225,100             | 235,845             | 10,745                             |
| Investment income                          | 50,000              | 265,000             | 265,373             | 373                                |
| Other revenue                              | 464,200             | 526,200             | 538,853             | 12,653                             |
| Total revenue                              | 5,326,954           | 5,796,954           | 5,875,512           | 78,558                             |
| <b>Expenditures</b>                        |                     |                     |                     |                                    |
| General government                         | 844,732             | 1,349,232           | 1,353,642           | (4,410)                            |
| District Court                             | 129,719             | 129,719             | 109,523             | 20,196                             |
| Public safety                              | 2,790,727           | 2,813,968           | 2,813,208           | 760                                |
| Public works                               | 538,488             | 487,639             | 456,188             | 31,451                             |
| Recreation and culture                     | 553,978             | 553,979             | 512,987             | 40,992                             |
| Capital outlay                             | 6,400               | 6,400               | 3,745               | 2,655                              |
| Total expenditures                         | 4,864,044           | 5,340,937           | 5,249,293           | 91,644                             |
| <b>Excess of Revenue Over Expenditures</b> | 462,910             | 456,017             | 626,219             | 170,202                            |
| <b>Other Financing Sources (Uses)</b>      |                     |                     |                     |                                    |
| Proceeds from sale of capital assets       | 1,000               | 1,000               | -                   | (1,000)                            |
| Transfers out                              | (765,167)           | (707,517)           | (662,965)           | 44,552                             |
| Total other financing uses                 | (764,167)           | (706,517)           | (662,965)           | 43,552                             |
| <b>Net Change in Fund Balance</b>          | (301,257)           | (250,500)           | (36,746)            | 213,754                            |
| <b>Fund Balance - Beginning of year</b>    | 2,778,131           | 2,778,131           | 2,778,131           | -                                  |
| <b>Fund Balance - End of year</b>          | <u>\$ 2,476,874</u> | <u>\$ 2,527,631</u> | <u>\$ 2,741,385</u> | <u>\$ 213,754</u>                  |



# City of Grosse Pointe, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress and Employer Contributions Year Ended June 30, 2012

The schedule of funding progress for the City's pension system is as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/06                    | \$ 31,089,837                          | \$ 20,664,559                                  | \$ 10,425,278                   | 150.5                              | \$ 3,063,467              | 340.3  |
| 06/30/07                    | 31,113,353                             | 21,281,396                                     | 9,831,957                       | 146.2                              | 3,112,268                 | 315.9  |
| 06/30/08                    | 30,084,877                             | 24,173,493                                     | 5,911,384                       | 124.5                              | 3,532,369                 | 167.3  |
| 06/30/09                    | 29,085,622                             | 25,037,109                                     | 4,048,513                       | 116.2                              | 3,639,283                 | 111.2  |
| 06/30/10                    | 28,803,389                             | 25,350,064                                     | 3,453,325                       | 113.6                              | 3,370,387                 | 102.5  |
| 06/30/11                    | 28,300,208                             | 26,145,879                                     | 2,154,329                       | 108.2                              | 3,054,414                 | 70.5   |

The schedule of employer contributions is as follows:

| Fiscal Year<br>Ended | Actuarial Valuation<br>Date | Annual<br>Required<br>Contribution * | Percentage<br>Contributed |
|----------------------|-----------------------------|--------------------------------------|---------------------------|
| 6/30/07              | 6/30/05                     | N/A                                  | N/A                       |
| 6/30/08              | 6/30/06                     | N/A                                  | N/A                       |
| 6/30/09              | 6/30/07                     | N/A                                  | N/A                       |
| 6/30/10              | 6/30/08                     | N/A                                  | N/A                       |
| 6/30/11              | 6/30/09                     | \$33,431                             | 100.0                     |
| 6/30/12              | 6/30/10                     | \$33,487                             | 100.0                     |

\* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation, follows:

|                               |                                |
|-------------------------------|--------------------------------|
| Actuarial cost method         | Individual entry age           |
| Amortization method           | Level percent of payroll, open |
| Remaining amortization period | 10 years                       |
| Asset valuation method        | 4-year smoothed market         |
| Actuarial assumptions:        |                                |
| Investment rate of return     | 7.5%                           |
| Projected salary increases*   | 4.5% - 8.5%                    |
| Cost of living adjustments    | None                           |

\*Includes inflation at 4.5 percent

# City of Grosse Pointe, Michigan

## Required Supplemental Information Postemployment Benefits Schedule of Funding Progress Year Ended June 30, 2012

The schedule of funding progress for the City's postemployment benefit system is as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/06                     | \$ 1,543,474                           | \$ 6,921,083                                   | \$ 5,377,609                    | 22.3                               | \$ 3,063,467              | 175.5  |
| 6/30/09                     | 1,243,272                              | 9,319,881                                      | 8,076,609                       | 13.3                               | 3,594,996                 | 224.7  |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation<br>Date | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
|-------------------|-----------------------------|------------------------------------|---------------------------|
| 6/30/10           | 6/30/09                     | \$ 599,141                         | 12.1                      |
| 6/30/11           | 6/30/09                     | 526,483                            | 10.9                      |
| 6/30/12           | 6/30/09                     | 526,121                            | 105.4                     |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2009, the latest actuarial valuation, follows:

|                               |                          |
|-------------------------------|--------------------------|
| Actuarial cost method         | Individual entry age     |
| Amortization method           | Level percent of payroll |
| Remaining amortization period | 30 years                 |
| Asset valuation method        | 4-year smoothed market   |
| Actuarial assumptions:        |                          |
| Investment rate of return     | 7.5%                     |
| Medical inflation rate *      | 8.0%                     |
| Cost of living adjustments    | 4.5%                     |

\* Includes inflation at 8 percent decreasing at 0.5 percent decrements over the following eight years to the ultimate assumed rate of 4.5 percent.

## **Other Supplemental Information**

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# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

|  | Special Revenue Funds    |                         |                         |                          | Debt Service<br>Fund    | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------|-------------------------|-------------------------|--------------------------|-------------------------|--|
|  | Major<br>Streets         | Local Streets<br>Fund   | Drug<br>Forfeiture      | Solid Waste<br>Fund      | Debt Service            |  |
| <b>Assets</b>                          |                          |                         |                         |                          |                         |  |
| Cash and cash equivalents              | \$ 64,272                | \$ 36,733               | \$ 61,070               | \$ 145,685               | \$ 16,871               | \$ 324,631                                 |
| Receivables - Net                      | 37,820                   | 13,204                  | -                       | -                        | -                       | 51,024                                     |
| Prepaid expenses                       | 1,591                    | 1,736                   | 82                      | 6,358                    | -                       | 9,767                                      |
| Total assets                           | <b><u>\$ 103,683</u></b> | <b><u>\$ 51,673</u></b> | <b><u>\$ 61,152</u></b> | <b><u>\$ 152,043</u></b> | <b><u>\$ 16,871</u></b> | <b><u>\$ 385,422</u></b>                   |
| <b>Liabilities and Fund Balances</b>   |                          |                         |                         |                          |                         |  |
| <b>Liabilities</b>                     |                          |                         |                         |                          |                         |  |
| Accounts payable                       | \$ 37,315                | \$ 2,441                | \$ -                    | \$ 20,887                | \$ -                    | \$ 60,643                                  |
| Accrued liabilities and other          | -                        | -                       | -                       | 5,987                    | 288                     | 6,275                                      |
| Total liabilities                      | 37,315                   | 2,441                   | -                       | 26,874                   | 288                     | 66,918                                     |
| <b>Fund Balances</b>                   |                          |                         |                         |                          |                         |  |
| Nonspendable - Prepays                 | 1,591                    | 1,736                   | 82                      | 6,358                    | -                       | 9,767                                      |
| Restricted:                            |                          |                         |                         |                          |                         |  |
| Roads                                  | 64,777                   | 47,496                  | -                       | -                        | -                       | 112,273                                    |
| Police                                 | -                        | -                       | 61,070                  | -                        | -                       | 61,070                                     |
| Solid waste                            | -                        | -                       | -                       | 89,026                   | -                       | 89,026                                     |
| Assigned:                              |                          |                         |                         |                          |                         |  |
| Solid waste                            | -                        | -                       | -                       | 29,785                   | -                       | 29,785                                     |
| Debt service                           | -                        | -                       | -                       | -                        | 16,583                  | 16,583                                     |
| Total fund balances                    | <u>66,368</u>            | <u>49,232</u>           | <u>61,152</u>           | <u>125,169</u>           | <u>16,583</u>           | <u>318,504</u>                             |
| Total liabilities and<br>fund balances | <b><u>\$ 103,683</u></b> | <b><u>\$ 51,673</u></b> | <b><u>\$ 61,152</u></b> | <b><u>\$ 152,043</u></b> | <b><u>\$ 16,871</u></b> | <b><u>\$ 385,422</u></b>                   |

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2012

|  | Special Revenue Funds |                       |                    |                     | Debt Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|-----------------------|--------------------|---------------------|----------------------|--|
|  | Major<br>Streets      | Local Streets<br>Fund | Drug<br>Forfeiture | Solid Waste<br>Fund | Debt Service         |  |
| <b>Revenue</b>   |                       |                       |                    |                     |                      |  |
| Property taxes   | \$ -                  | \$ -                  | \$ -               | \$ 570,844          | \$ 205,830           | \$ 776,674                                 |
| State sources  | 229,089               | 80,410                | -                  | -                   | -                    | 309,499                                    |
| Charges for services                                   | -                     | -                     | -                  | 119,634             | -                    | 119,634                                    |
| Investment income                                      | -                     | -                     | 36                 | -                   | -                    | 36   |
| Other  | -                     | -                     | 24,866             | -                   | -                    | 24,866                                     |
| Total revenue  | 229,089               | 80,410                | 24,902             | 690,478             | 205,830              | 1,230,709                                  |
| <b>Expenditures</b>                                    |                       |                       |                    |                     |                      |  |
| Public safety  | -                     | -                     | 2,400              | 529                 | -                    | 2,929                                      |
| Public works   | 199,056               | 268,742               | -                  | 661,902             | -                    | 1,129,700                                  |
| Capital outlay   | 55,564                | 136,420               | 39,641             | -                   | -                    | 231,625                                    |
| Debt service:  |                       |                       |                    |                     |                      |  |
| Principal  | -                     | -                     | -                  | -                   | 340,000              | 340,000                                    |
| Interest and fiscal charges                            | -                     | -                     | -                  | -                   | 97,120               | 97,120                                     |
| Total expenditures                                     | 254,620               | 405,162               | 42,041             | 662,431             | 437,120              | 1,801,374                                  |
| <b>Excess of Revenue (Under) Over<br/>Expenditures</b> | (25,531)              | (324,752)             | (17,139)           | 28,047              | (231,290)            | (570,665)                                  |
| <b>Other Financing Sources</b>                         |                       |                       |                    |                     |                      |  |
| Transfers in   | 55,564                | 344,420               | -                  | -                   | 204,965              | 604,949                                    |
| <b>Net Change in Fund Balances</b>                     | 30,033                | 19,668                | (17,139)           | 28,047              | (26,325)             | 34,284                                     |
| <b>Fund Balances - Beginning of year</b>               | 36,335                | 29,564                | 78,291             | 97,122              | 42,908               | 284,220                                    |
| <b>Fund Balances - End of year</b>                     | <b>\$ 66,368</b>      | <b>\$ 49,232</b>      | <b>\$ 61,152</b>   | <b>\$ 125,169</b>   | <b>\$ 16,583</b>     | <b>\$ 318,504</b>                          |

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2012

|  | Pension Trust<br>Fund | Postemployment<br>Health Benefits<br>Trust Fund | Total                |
|--|-----------------------|---|----------------------|
| <b>Assets</b>  |                       |   |                      |
| Cash and cash equivalents  | \$ 105,021            | \$ 570,779                                      | \$ 675,800           |
| Investments:   |                       |   |                      |
| Corporate bonds and notes  | 8,530,017             | 103,966   | 8,633,983            |
| Common and preferred stock   | 20,963,971            | 151,959   | 21,115,930           |
| Mutual funds   | 2,171,125             | 32,439  | 2,203,564            |
| Foreign bonds  | 258,000               | -   | 258,000              |
| Interest receivable  | 174,935               | 2,057   | 176,992              |
| Prepaid expenses   | 123,079               | 24,698  | 147,777              |
| Total assets   | 32,326,148            | 885,898   | 33,212,046           |
| <b>Liabilities - Accounts payable</b>  | 141,339               | 9,320   | 150,659              |
| <b>Net Assets Held in Trust for Pension and Other<br/>Postemployment Health Benefits</b> | <b>\$ 32,184,809</b>  | <b>\$ 876,578</b>                               | <b>\$ 33,061,387</b> |

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Changes Net Assets Fiduciary Funds Year Ended June 30, 2012

|  | Pension Trust<br>Fund | Postemployment<br>Health Benefits<br>Trust Fund | Total                |
|--|-----------------------|---|----------------------|
| <b>Additions</b>                                     |                       |   |                      |
| Investment income:                                   |                       |   |                      |
| Interest and dividends                               | \$ 1,136,266          | \$ 28,902                                       | \$ 1,165,168         |
| Net increase (decrease) in fair value of investments | 1,462,645             | (29,824)  | 1,432,821            |
| Investment-related expenses                          | (373,664)             | (6,217)   | (379,881)            |
| Net investment income (loss)                         | 2,225,247             | (7,139)   | 2,218,108            |
| Contributions:                                       |                       |   |                      |
| Employer contributions                               | 33,487                | 554,768   | 588,255              |
| Employee   | 178,770               | 46,719  | 225,489              |
| Net contributions                                    | 212,257               | 601,487   | 813,744              |
| Total additions                                      | 2,437,504             | 594,348   | 3,031,852            |
| <b>Deductions</b>                                    |                       |   |                      |
| Benefit payments                                     | 1,457,042             | -   | 1,457,042            |
| Health insurance payments                            | -                     | 489,918   | 489,918              |
| Total deductions                                     | 1,457,042             | 489,918   | 1,946,960            |
| <b>Net Increase in Net Assets Held in Trust</b>      | 980,462               | 104,430   | 1,084,892            |
| <b>Net Assets - Beginning of year</b>                | 31,204,347            | 772,148   | 31,976,495           |
| <b>Net Assets - End of year</b>                      | <b>\$ 32,184,809</b>  | <b>\$ 876,578</b>                               | <b>\$ 33,061,387</b> |