

**Village of Grosse Pointe Shores,
a Michigan City
Wayne and Macomb Counties, Michigan**

FINANCIAL STATEMENTS

June 30, 2012

Village of Grosse Pointe Shores, a Michigan City

Wayne and Macomb Counties, Michigan

June 30, 2012

CITY COUNCIL

Thaddeus Kedzierski

Mayor

Daniel Schulte

Mayor Pro-Tem

Alexander Ajlouni, M.D.

Council Member

Robert Barrette, Jr.

Council Member

Bruce Bisballe

Council Member

Kay Felt

Council Member

Robert Gesell

Council Member

Village of Grosse Pointe Shores, a Michigan City

TABLE OF CONTENTS

June 30, 2012

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	8
Statement of Cash Flows - Proprietary Funds	9-10
Statement of Fiduciary Net Assets - Fiduciary Funds	11
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	12
Notes to Financial Statements	13-32
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Budgetary Comparison Schedule	33-34
General and Public Safety Retirement System	
Schedule of Funding Progress	35
Note to Required Supplementary Information	36
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	38
Combining Statement of Fiduciary Net Assets - Pension and Employee Benefit Trust Funds	39
Combining Statement of Changes in Fiduciary Net Assets - Pension and Employee Benefit Trust Funds	40
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	41

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Village of Grosse Pointe Shores, a Michigan City
Wayne and Macomb Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, a Michigan City, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Grosse Pointe Shores Improvement Foundation. The Grosse Pointe Shores Improvement Foundation represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Grosse Pointe Shores Improvement Foundation, is based solely on the report of the other auditors.

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, based on our audit and the report of other auditors, 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 Village of Grosse Pointe Shores, a Michigan City, 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 the management's discussion and analysis, budgetary comparison information, and schedule of funding progress, 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Grosse Pointe Shores, a Michigan City's financial statements as a whole. The combining nonmajor fund financial statements, combining fiduciary trust fund financial statements, and combining agency financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements are the responsibility of management and were derived from and relate 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Financial Reporting

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

Financial Highlights

As discussed in further detail in this analysis, the following represents the most significant financial issues for the year ended June 30, 2012:

- Property tax revenues, the City's largest source of revenue, decreased \$39,452 from 2011.
- General Fund fund balance increased \$205,116 as a result of current year activity.

Using this Annual Report

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

Government-wide Financial Statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City'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.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements. 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 operations of the City in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

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

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

Village of Grosse Pointe Shores, a Michigan City

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Using this Annual Report - continued

The City maintains five (5) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. The Major Street, Local Street, 911 Service, and Debt Service Funds are nonmajor governmental funds and are detailed in the Nonmajor Governmental Funds Combining Balance Sheets in the Other Supplementary Information section of the audit report.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The City maintains two (2) proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its sewer and water system as well as Marina activity.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-32 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the General Fund budgetary comparison schedule. Combining statements referred to earlier in connection with nonmajor governmental funds are presented as other supplementary information.

The City as a Whole

The following table shows, in a condensed format, a comparative analysis of the net assets as of June 30, 2012 and June 30, 2011.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 1,571,747	\$ 1,293,880	\$ 942,091	\$ 1,021,891	\$ 2,513,838	\$ 2,315,771
Capital Assets	4,576,133	4,830,058	12,126,686	12,787,747	16,702,819	17,617,805
Total Assets	\$ 6,147,880	\$ 6,123,938	\$ 13,068,777	\$ 13,809,638	\$ 19,216,657	\$ 19,933,576
Current Liabilities	\$ 477,649	\$ 489,445	\$ 545,059	\$ 544,675	\$ 1,022,708	\$ 1,034,120
Noncurrent Liabilities	2,771,698	2,512,098	5,854,016	6,170,304	8,625,714	8,682,402
Total Liabilities	\$ 3,249,347	\$ 3,001,543	\$ 6,399,075	\$ 6,714,979	\$ 9,648,422	\$ 9,716,522
Net Assets						
Invested in Capital Assets (net of related debt)	\$ 3,362,489	\$ 3,551,464	\$ 5,944,445	\$ 6,273,378	\$ 9,306,934	\$ 9,824,842
Restricted	533,354	371,530	-	-	533,354	371,530
Unrestricted	(997,310)	(800,599)	725,257	821,281	(272,053)	20,682
Total Net Assets	\$ 2,898,533	\$ 3,122,395	\$ 6,669,702	\$ 7,094,659	\$ 9,568,235	\$ 10,217,054

Village of Grosse Pointe Shores, a Michigan City

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The City as a Whole - continued

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$9,568,235 as of June 30, 2012. A portion of the City's net assets, \$(272,053), reflects its balance of unrestricted net assets.

The City's net assets invested in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that are still outstanding were \$9,306,934 at June 30, 2012. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$533,354 represent resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net assets, however, the governmental activities net assets invested in capital assets net of related debt exceeded total net assets. Overall net assets were decreased by \$631,496 during the current year as indicated below.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for services	\$ 579,497	\$ 626,316	\$ 1,542,292	\$ 1,497,864	\$ 2,121,789	\$ 2,124,180
Grants and contributions	201,831	353,744	-	-	201,831	353,744
General Revenues						
Property Taxes	4,850,960	4,890,412	-	-	4,850,960	4,890,412
State Shared Revenue	227,583	199,749	-	-	227,583	199,749
Investment Earnings	4,372	5,683	1,044	1,378	5,416	7,061
Miscellaneous	128,913	82,005	-	-	128,913	82,005
Transfers	(232,928)	(232,616)	232,928	232,616	-	-
Total Revenues	5,760,228	5,925,293	1,776,264	1,731,858	7,536,492	7,657,151
Expenses						
General Government	1,345,431	1,225,839	-	-	1,345,431	1,225,839
Public Safety	2,809,956	2,835,828	-	-	2,809,956	2,835,828
Public Works	1,351,961	1,343,981	-	-	1,351,961	1,343,981
Health & Welfare	74,425	77,666	-	-	74,425	77,666
Community and						
Economic Development	20,486	18,997	-	-	20,486	18,997
Recreation & Culture	331,367	294,891	-	-	331,367	294,891
Other	50,464	52,278	2,183,898	2,071,382	2,234,362	2,123,660
Total Expenses	5,984,090	5,849,480	2,183,898	2,071,382	8,167,988	7,920,862
Change in Net Assets	\$ (223,862)	\$ 75,813	\$ (407,634)	\$ (339,524)	\$ (631,496)	\$ (263,711)

Governmental Activities

Governmental activities decreased the City's net assets by \$223,862 during fiscal year 2012. The main reason for the decrease was an increase in general government expenses comprised of non-cash items.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Business-type Activities

Business-type activities decreased the City's net assets by \$407,634 during fiscal year 2012. The main reason for the decline is that the cost of providing the utility services (including depreciation) is greater than what the City is currently charging. The majority (87%) of the revenue of the business-type activities is generated through user charges.

The City's Funds

Governmental Funds. The analysis of the City's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the governmental funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes. The City's major governmental fund for the fiscal year ended June 30, 2012 was the General Fund. The General Fund pays for most of the City's governmental services. The most significant service provided during the fiscal year was for public safety, which incurred expenditures of \$2,221,547 for the fiscal year.

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

Unrestricted net assets of the Sewer and Water Fund and the Marina Fund at the end of the year amounted to \$577,862 and \$147,395 respectively. The decrease in net assets for the Sewer and Water Fund for the fiscal year was \$190,525 and the decrease for the Marina Fund was \$217,109 in 2012. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Council made amendments to the budget as originally adopted. Actual revenues were approximately 1% more than budgeted mainly due to the tax levy generating more revenues than anticipated. Actual expenditures were approximately 4% under budget mainly due to sanitation department incurring less expenditures than anticipated.

Capital Asset and Debt Administration

Capital Assets. At the end of the fiscal year, the City had approximately \$16,702,819 invested in a broad range of governmental and business-type capital assets, including buildings, land, equipment, and utilities.

Long-term Debt. The City made principal payments on existing obligations in the amount of \$405,000. The carrying amount of the City's obligation for compensated absences was \$718,984 at year end. Refer to Note F on pages 25 through 26 for further details related to the City's long-term debt.

Current Economic Factors

Property tax revenue and revenue sharing are the most significant budgetary concerns at this time. The State of Michigan is experiencing significant budget problems and as they look for solutions revenue sharing continues to be under attack.

Contacting the City's Management

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

BASIC FINANCIAL STATEMENTS

Village of Grosse Pointe Shores, a Michigan City

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-type Activities	Total	Component Unit (Improvement Foundation)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,431,852	\$ 473,506	\$ 1,905,358	\$ 117,218
Receivables	17,634	319,905	337,539	-
Due from other governmental units	188,034	-	188,034	-
Internal balances	(144,213)	144,213	-0-	-
Inventory	10,515	2,965	13,480	-
Prepays	52,495	1,502	53,997	539
Total current assets	1,556,317	942,091	2,498,408	117,757
Noncurrent assets				
Investments	-	-	-0-	645,207
Investment in joint venture	15,430	-	15,430	-
Capital assets not being depreciated	880,608	5,053	885,661	-
Capital assets being depreciated, net	3,695,525	12,121,633	15,817,158	-
Total noncurrent assets	4,591,563	12,126,686	16,718,249	645,207
TOTAL ASSETS	6,147,880	13,068,777	19,216,657	762,964
LIABILITIES				
Current liabilities				
Accounts payable	268,147	-	268,147	6,115
Accrued wages	70,294	1,089	71,383	-
Accrued interest payable	11,910	66,809	78,719	-
Unearned revenue	17,364	131,132	148,496	8,200
Current portion of compensated absences	44,984	-	44,984	-
Current portion of long-term debt	64,950	346,029	410,979	-
Total current liabilities	477,649	545,059	1,022,708	14,315
Noncurrent liabilities				
Other post-employment benefits obligation	966,808	-	966,808	-
Noncurrent portion of compensated absences	656,196	17,804	674,000	-
Noncurrent portion of long-term debt	1,148,694	5,836,212	6,984,906	-
Total noncurrent liabilities	2,771,698	5,854,016	8,625,714	-0-
TOTAL LIABILITIES	3,249,347	6,399,075	9,648,422	14,315
NET ASSETS				
Invested in capital assets, net of related debt	3,362,489	5,944,445	9,306,934	-
Restricted				
Streets and highways	294,270	-	294,270	-
Sanitation	207,741	-	207,741	-
Public safety	31,343	-	31,343	-
Expendable endowment	-	-	-0-	10,395
Nonexpendable endowment	-	-	-0-	605,000
Unrestricted	(997,310)	725,257	(272,053)	133,254
TOTAL NET ASSETS	\$ 2,898,533	\$ 6,669,702	\$ 9,568,235	\$ 748,649

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit (Improvement Foundation)
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
Primary government							
Governmental activities							
General government	\$ 1,345,431	\$ 434,674	\$ 1,500	\$ (909,257)	\$ -	\$ (909,257)	\$ -
Public safety	2,809,956	-	26,977	(2,782,979)	-	(2,782,979)	-
Public works	1,351,961	92,861	173,354	(1,085,746)	-	(1,085,746)	-
Health and welfare	74,425	51,962	-	(22,463)	-	(22,463)	-
Community and economic development	20,486	-	-	(20,486)	-	(20,486)	-
Recreation and culture	331,367	-	-	(331,367)	-	(331,367)	-
Interest and fees on long-term debt	50,464	-	-	(50,464)	-	(50,464)	-
Total governmental activities	5,984,090	579,497	201,831	(5,202,762)	-0-	(5,202,762)	-0-
Business-type activities							
Water and sewer	1,801,563	1,328,110	-	-	(473,453)	(473,453)	-
Marina	382,335	214,182	-	-	(168,153)	(168,153)	-
Total business-type activities	2,183,898	1,542,292	-0-	-0-	(641,606)	(641,606)	-0-
Total primary government	<u>\$ 8,167,988</u>	<u>\$ 2,121,789</u>	<u>\$ 201,831</u>	(5,202,762)	(641,606)	(5,844,368)	-0-
Component unit							
Grosse Pointe Shores Improvement Foundation							
	<u>\$ 168,776</u>	<u>\$ -</u>	<u>\$ 120,734</u>	-	-	-0-	(48,042)
General revenues							
Property taxes				4,850,960	-	4,850,960	-
State shared revenue				227,583	-	227,583	-
Investment earnings				4,372	1,044	5,416	52,502
Miscellaneous				128,913	-	128,913	-
Transfers				(232,928)	232,928	-0-	-
Total general revenues and transfers				4,978,900	233,972	5,212,872	52,502
Change in net assets				(223,862)	(407,634)	(631,496)	4,460
Restated net assets, beginning of the year				3,122,395	7,077,336	10,199,731	744,189
Net assets, end of the year				<u>\$ 2,898,533</u>	<u>\$ 6,669,702</u>	<u>\$ 9,568,235</u>	<u>\$ 748,649</u>

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

Governmental Funds

BALANCE SHEET

June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 1,197,461	\$ 234,391	\$ 1,431,852
Receivables			
Taxes	270	-	270
Accounts	17,364	-	17,364
Due from other governmental units	159,072	28,962	188,034
Due from other funds	161,994	68,916	230,910
Inventory	10,515	-	10,515
Prepays	52,495	-	52,495
	<u>1,599,171</u>	<u>332,269</u>	<u>1,931,440</u>
TOTAL ASSETS	\$ 1,599,171	\$ 332,269	\$ 1,931,440
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 268,147	\$ -	\$ 268,147
Accrued wages	70,294	-	70,294
Due to other funds	368,467	6,656	375,123
Deferred revenue	17,634	-	17,634
	<u>724,542</u>	<u>6,656</u>	<u>731,198</u>
TOTAL LIABILITIES	724,542	6,656	731,198
FUND BALANCES			
Nonspendable			
Inventory	10,515	-	10,515
Prepays	52,495	-	52,495
Restricted			
Streets and highways	-	294,270	294,270
Sanitation	207,741	-	207,741
911 Service	-	31,343	31,343
Unassigned	603,878	-	603,878
	<u>874,629</u>	<u>325,613</u>	<u>1,200,242</u>
TOTAL FUND BALANCES	874,629	325,613	1,200,242
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,599,171	\$ 332,269	\$ 1,931,440

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balances - governmental funds \$ 1,200,242

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

Investments in joint ventures are not current financial resources and therefore are not reported as an asset in the governmental funds. 15,430

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

The cost of capital assets is	\$ 13,305,479	
Accumulated depreciation is	<u>(8,729,346)</u>	
Capital assets, net		4,576,133

Long-term receivables are not available to pay for current period expenditures and therefore deferred in the funds. These consist of:

Deferred revenues		270
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities at year-end consist of:

Bonds payable	(1,213,644)	
Other post-employment benefits obligation	(966,808)	
Accrued interest payable	(11,910)	
Compensated absences	<u>(701,180)</u>	
		<u>(2,893,542)</u>

Net assets of governmental activities \$ 2,898,533

Village of Grosse Pointe Shores, a Michigan City

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total
REVENUES			
Taxes	\$ 4,501,410	\$ 486,799	\$ 4,988,209
Intergovernmental	227,583	173,354	400,937
Licenses and permits	47,140	-	47,140
Charges for services	202,685	-	202,685
Fines and forfeits	193,217	-	193,217
Interest	4,134	238	4,372
Other	130,411	26,977	157,388
TOTAL REVENUES	5,306,580	687,368	5,993,948
EXPENDITURES			
Current			
General government	1,162,724	-	1,162,724
Public safety	2,221,547	11,040	2,232,587
Public works	920,786	94,719	1,015,505
Health and welfare	73,016	-	73,016
Community and economic development	17,848	-	17,848
Recreation and culture	273,608	-	273,608
Other	527,213	-	527,213
Capital outlay	42,651	-	42,651
Debt service	-	115,942	115,942
TOTAL EXPENDITURES	5,239,393	221,701	5,461,094
EXCESS OF REVENUES OVER EXPENDITURES	67,187	465,667	532,854
OTHER FINANCING SOURCES (USES)			
Transfers in	150,000	12,071	162,071
Transfers out	(12,071)	(382,928)	(394,999)
TOTAL OTHER FINANCING SOURCES (USES)	137,929	(370,857)	(232,928)
NET CHANGE IN FUND BALANCES	205,116	94,810	299,926
Fund balances, beginning of year	669,513	230,803	900,316
Fund balances, end of year	<u>\$ 874,629</u>	<u>\$ 325,613</u>	<u>\$ 1,200,242</u>

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

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

Year Ended June 30, 2012

Net change in fund balances - total governmental funds **\$ 299,926**

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

Change in equity interest in the joint venture is not reported in the governmental funds. (1,161)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	20,433
Depreciation expense		(236,888)
Loss on sale of capital assets		<u>(37,470)</u>

Excess of depreciation expense and loss on sale over capital outlay (253,925)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Change in deferred revenue (793)

Items resulting from the repayment of long-term debt is reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current period, these amounts consist of:

Debt principal retirement 64,950

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in other post-employment benefits obligation		(363,539)
Decrease in accrued interest payable		528
Decrease in accrued compensated absences		<u>30,152</u>

(332,859)

Change in net assets of governmental activities **\$ (223,862)**

Village of Grosse Pointe Shores, a Michigan City

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Water and Sewer Fund</u>	<u>Marina Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 473,506	\$ 473,506
Accounts receivable	319,561	344	319,905
Due from other funds	299,551	-	299,551
Inventory	2,965	-	2,965
Prepays	1,502	-	1,502
	<u>623,579</u>	<u>473,850</u>	<u>1,097,429</u>
Total current assets			
Noncurrent assets			
Capital assets not being depreciated	5,053	-	5,053
Capital assets being depreciated, net	8,349,648	3,771,985	12,121,633
	<u>8,354,701</u>	<u>3,771,985</u>	<u>12,126,686</u>
Total noncurrent assets			
TOTAL ASSETS			
	8,978,280	4,245,835	13,224,115
LIABILITIES			
Current liabilities			
Accrued interest payable	26,824	39,985	66,809
Accrued wages payable	1,089	-	1,089
Due to other funds	-	155,338	155,338
Unearned revenue	-	131,132	131,132
Current portion of long-term debt	300,050	45,979	346,029
	<u>327,963</u>	<u>372,434</u>	<u>700,397</u>
Total current liabilities			
Noncurrent liabilities			
Compensated absences	17,804	-	17,804
Noncurrent portion of long-term debt	2,196,534	3,639,678	5,836,212
	<u>2,214,338</u>	<u>3,639,678</u>	<u>5,854,016</u>
Total noncurrent liabilities			
TOTAL LIABILITIES			
	<u>2,542,301</u>	<u>4,012,112</u>	<u>6,554,413</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,858,117	86,328	5,944,445
Unrestricted	577,862	147,395	725,257
	<u>5,858,117</u>	<u>147,395</u>	<u>6,005,512</u>
Total unrestricted net assets			
TOTAL NET ASSETS			
	<u>\$ 6,435,979</u>	<u>\$ 233,723</u>	<u>\$ 6,669,702</u>

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

	Water and Sewer Fund	Marina Fund	Total
OPERATING REVENUES			
Customer billings	\$ 1,328,110	\$ -	\$ 1,328,110
Other charges for services	-	214,182	214,182
TOTAL OPERATING REVENUES	1,328,110	214,182	1,542,292
OPERATING EXPENSES			
Water supply and sewage disposal	848,435	-	848,435
Repairs and maintenance	289,469	8,539	298,008
General and administrative	79,937	17,461	97,398
Utilities	-	8,933	8,933
Depreciation and amortization	480,844	188,139	668,983
TOTAL OPERATING EXPENSES	1,698,685	223,072	1,921,757
OPERATING (LOSS)	(370,575)	(8,890)	(379,465)
NONOPERATING REVENUES (EXPENSES)			
Interest expenses and fees	(102,878)	(159,263)	(262,141)
Interest revenue	-	1,044	1,044
TOTAL NONOPERATING REVENUES (EXPENSES)	(102,878)	(158,219)	(261,097)
(LOSS) BEFORE TRANSFERS	(473,453)	(167,109)	(640,562)
TRANSFERS IN	382,928	-	382,928
TRANSFERS OUT	(100,000)	(50,000)	(150,000)
TOTAL TRANSFERS	282,928	(50,000)	232,928
CHANGE IN NET ASSETS	(190,525)	(217,109)	(407,634)
Restated net assets, beginning of year	6,626,504	450,832	7,077,336
Net assets, end of year	\$ 6,435,979	\$ 233,723	\$ 6,669,702

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

	Water and Sewer Fund	Marina Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 1,293,876	\$ 211,590	\$ 1,505,466
Cash receipts from other funds	32,505	82,606	115,111
Cash paid to suppliers	(1,138,014)	(17,472)	(1,155,486)
Cash paid to employees	(78,367)	(17,461)	(95,828)
NET CASH PROVIDED BY OPERATING ACTIVITIES	110,000	259,263	369,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(100,000)	(50,000)	(150,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers in	382,928	-	382,928
Principal payments on long-term debt	(290,050)	(50,000)	(340,050)
Interest payments on long-term debt	(102,878)	(159,263)	(262,141)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(10,000)	(209,263)	(219,263)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	-	1,044	1,044
NET INCREASE IN CASH AND CASH EQUIVALENTS	-0-	1,044	1,044
Cash and cash equivalents, beginning of year	-	472,462	472,462
Cash and cash equivalents, end of year	\$ -0-	\$ 473,506	\$ 473,506

Village of Grosse Pointe Shores, a Michigan City

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2012

	<u>Water and Sewer Fund</u>	<u>Marina Fund</u>	<u>Total</u>
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating (loss)	\$ (370,575)	\$ (8,890)	\$ (379,465)
Adjustments to reconcile operating (loss) to net cash provided by operating activities			
Depreciation	480,844	188,139	668,983
(Increase) decrease in:			
Accounts receivable	(34,234)	77	(34,157)
Due from other funds	32,505	-	32,505
Inventories	595	-	595
Prepays	(705)	-	(705)
Increase (decrease) in:			
Accrued wages	1,089	-	1,089
Compensated absences	481	-	481
Due to other funds	-	82,606	82,606
Unearned revenue	-	(2,669)	(2,669)
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 110,000</u>	<u>\$ 259,263</u>	<u>\$ 369,263</u>

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Fiduciary Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 12,325,060	\$ 69,833
Investments		
U.S. government securities	623,785	-
Foreign bonds	567,124	-
Corporate bonds and certificates of deposit	5,774,141	-
Due from other governmental units	2,142,253	-
Interest receivable	112,640	-
Prepays	9,699	-
	<u>21,554,702</u>	<u>\$ 69,833</u>
TOTAL ASSETS		
LIABILITIES		
Due to individuals and agencies	1,722	\$ 67,814
Due to other governmental units	2,142,253	2,019
	<u>2,143,975</u>	<u>\$ 69,833</u>
TOTAL LIABILITIES		
NET ASSETS		
Held in trust for pension and other employee benefits	<u>\$ 19,410,727</u>	

See accompanying notes to financial statements.

Village of Grosse Pointe Shores, a Michigan City

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	<u>Fiduciary Trust Funds</u>
ADDITIONS	
Investment income	
Interest, dividends, and net realized income on investments	\$ 691,756
Net change in fair value of investments	(232,303)
Less investment expenses	<u>(134,923)</u>
Net investment income	324,530
Contributions	
Employer	761,997
Employee	<u>135,663</u>
Total contributions	<u>897,660</u>
TOTAL ADDITIONS	1,222,190
DEDUCTIONS	
Pension benefit payments	971,815
Healthcare benefit payments	<u>256,534</u>
TOTAL DEDUCTIONS	<u>1,228,349</u>
CHANGE IN NET ASSETS	(6,159)
Net assets, beginning of year	<u>19,416,886</u>
Net assets, end of year	<u><u>\$ 19,410,727</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Grosse Pointe Shores, a Michigan City (the City), operates under an elected City Council, which consists of the Mayor, Mayor Pro-Tem, and five (5) council members, with daily activities operated by the City Manager, and City Treasurer.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39) and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of the Village of Grosse Pointe Shores, a Michigan City. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are governed by a five-member pension board that includes the City Mayor and two residents chosen by the City Council along with two active members of the retirement system - one representing Public Safety members and one representing the General and Public Works members. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are reported as fiduciary funds because of the fiduciary responsibility that the City retains relative to the operations of the funds.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

The component unit described below should be included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

2. Discretely Presented Component Unit

The Grosse Pointe Shores Improvement Foundation (Foundation) is a Michigan nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Foundation was organized to provide financial assistance to the City. The City is the primary recipient of the Foundation's activities, receiving 100 percent of the Foundation's economic resources. Additionally, the Foundation seeks the City's input to determine projects to complete. Finally, the Foundation's endowment is material to the City's financial statements. The Foundation's activities are reported on a calendar year end of December 31. The financial statements for the Foundation are audited separately and may be obtained from their administrative office.

3. 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 Wayne and Macomb counties. Other members include the cities of Mount Clemens, Harper Woods, Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Grosse Pointe Woods and Clinton Township. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Joint Venture - continued

The City's interest in the net assets of the Authority totaled approximately \$15,430 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, which would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from the Village of Grosse Pointe Shores, a Michigan City upon request.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the City as a whole. All non-fiduciary activities of the City are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the City and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

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

The City reports the following major enterprise funds:

- a. The Water and Sewer Fund is used to account for the activities of the water distribution system and sewage collection system. Funding is primarily funded through user charges.
- b. The Marina Fund is used to account for the activities of the City-run marina, which is primarily funded through the rental of boat wells.

Additionally, the City reports trust funds to account for the activities of the employee benefit plans, which accumulate resources for pension and other post-employment benefits obligations to qualified employees. The City's trust funds are the General and Public Safety Retirement System Fund and the Retired Employees' Health Care Benefits Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The City also reports agency funds to account for assets held by the City in a trustee capacity. Agency funds are custodial in nature and do not involve the results of operations. The City's agency funds are the Trust and Agency Fund and the Tax Collection Fund.

5. Measurement Focus

The government-wide, proprietary, and non-agency fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year-end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services. Most licenses and permits, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information was prepared on a basis not substantially different than the basis used to reflect actual results. The basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriations are adopted for all required governmental fund types.

The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the City Council and City Manager prepare and submit their proposed operating budgets for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to June 1, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. After the budget is adopted, all transfers of budgeted amounts between departments within the General Fund or any revisions that alter the total expenditures of any fund must be approved by the City Council.
- f. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- g. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
- h. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were not material in relation to the original budgets which were amended.

8. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and investment trust fund accounts. The cash equivalents are recorded at cost, which approximates market value.

Investments include U.S. Government Securities, corporate bonds (both domestic and foreign) and corporate certificates of deposit with an original maturity of greater than 90 days from the date of purchase. Investments are recorded at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Receivables

Receivables consist of amounts due from various individuals and businesses related to charges for services, amounts owed to the City from court related fees, and taxes levied that have not been collected.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan or other governments for various payments and grants.

11. Property Tax

The City bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied on July 1. The tax levy is due September 14. All taxes not paid by their due date are deemed delinquent. Delinquent real property taxes are turned over to the Macomb and Wayne County Treasurers on March 1 of the year following the levy. The Macomb and Wayne County Treasurers remit payments to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection.

The City is permitted to levy up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services and 3 mills (\$3 per \$1,000 of taxable valuation) for refuse services. Additional levies for debt service, the retirement system, and Public Act 359 activities are also authorized. For the year ended June 30, 2012, the City levied 11.6184 mills for general governmental services, 1.8772 mills for refuse services, 1.7168 mills for the retirement system, 1.7519 mills for debt service, and 0.1757 mills for Public Act 359 activities. The total taxable value for the 2011 levy for the property within the City was \$282,400,646. This raised \$3,281,044 for general governmental services, \$530,122 for refuse services, \$484,825 for the retirement system, \$494,738 for debt service payments, and \$49,618 for Public Act 359 activities.

12. Inventories and Prepaids

Inventories are valued on a first-in, first-out cost basis. Prepaid items represent payments made to vendors for goods and services applicable to future fiscal years. These items are recorded in both the government-wide and fund financial statements. Reportable inventories and prepaids are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

13. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings	50 years
Vehicles	8 - 15 years
Machinery and equipment	5 - 20 years
Infrastructure	20 - 50 years
Marina	45 - 50 years

14. Deferred and Unearned Revenue

Deferred revenue consists of property taxes for which there is an enforceable claim as of June 30, 2012, but which are levied to finance year 2012-13 operations and boat well rentals the City received in advance. Governmental funds report deferred revenues in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

Government-wide and proprietary financial statements report unearned revenues for resources that have been received, but not yet earned.

15. Compensated Absences

In accordance with the City personnel policies and/or contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested sick leave earned as of June 30, 2012, including related payroll taxes, is recorded entirely in the government-wide financial statements.

16. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

17. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The General Fund records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Restricted Net Assets

Restrictions of net assets shown in the government-wide financial statements indicate restrictions that have been imposed by outside sources which preclude a portion of net assets from their use for unrestricted purposes.

19. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The General and Public Safety Retirement System (Retirement System) Trust Fund and the Retired Employees' Health Care Benefits Trust Fund are also authorized by Michigan 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.

Deposits

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2012, the carrying amount of the City's deposits was \$2,114,928 and the bank balance was \$2,130,765.

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2012, \$638,487 of the City accounts were FDIC insured while \$1,492,278 were uninsured.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The carrying amount of the component unit's deposits was \$117,218. The bank balance was not readily available.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

The following table lists the average weighted maturities of investments for the City as of June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Corporate bonds	\$ 5,669,120	4.60 years
Corporate certificates of deposit	105,021	1.16 years
Foreign bonds	567,124	3.54 years
U.S. government obligations	516,360	3.67 years
U.S. federal agencies	107,425	1.45 years
Uncategorized pooled cash	<u>12,184,673</u>	N/A
	<u>\$ 19,149,723</u>	

The fair value of the component unit's investments as of June 30, 2012, was \$645,207. The weighted average maturity for each investment type was not readily available.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The investment policy for the pension and other post-employment benefit trust funds states that the weighted average credit quality of fixed income securities shall be A rated by Moody's and Standard & Poor's. Additionally, no more than 20 percent of the fixed income portfolio of a manager should be invested in securities carrying less than a Baa/BBB rating either by Moody's or Standard and Poor's. Split-rate securities will be governed by the lower rating and commercial paper must be rated either A1 or P1.

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The following table lists credit ratings as rated by Standard and Poor's for the City's debt securities as of June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
Corporate bonds	\$ 564,034	AA
Corporate bonds	2,780,521	A
Corporate bonds	1,846,396	BBB
Corporate bonds	106,240	BB
Corporate bonds	200,934	B
Corporate bonds	170,995	CCC
Corporate certificates of deposit	105,021	N/A
Foreign bonds	310,411	A
Foreign bonds	256,713	BBB
U.S. government obligations	128,800	AAA
U.S. government obligations	387,560	N/A
U.S. federal agencies	107,425	AA

The ratings for investments held by the component unit as of June 30, 2012, were not readily available.

Concentration of credit risk

The City's investment policy requires the City to diversify investments by security type and institution. No more than 50 percent of the City's total investment portfolio can be invested in a single security type or with a single financial institution.

The City's fiduciary funds are also subject to Michigan Public Act 485 of 1996, which limits the City's investment with any one issuer at no more than 5 percent of total investments.

The fair value of individual marketable securities that represent 5% or more of the total marketable securities included in investments as of June 30, 2012, are as follows:

<u>Issuer Name</u>	<u>Fair Value</u>	<u>Percentage of Overall Investments</u>
First Eagle	\$ 1,128,590	5.89%
Ishares	7,020,265	36.65%
Vanguard	1,926,451	10.06%

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The cash and cash equivalents caption on the financial statements include \$650 in petty cash. The following summarizes the categorization of these amounts as of June 30, 2012:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and cash equivalents	\$ 1,905,358	\$ 12,394,893	\$ 117,218
Investments	-	6,965,050	645,207
	<u>\$ 1,905,358</u>	<u>\$ 19,359,943</u>	<u>\$ 762,425</u>

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE C: INTERFUND PAYABLES AND RECEIVABLES

The amount of interfund receivables and payables at June 30, 2012 are as follows:

Due to General Fund from:	
Nonmajor governmental funds	\$ 6,656
Marina Fund	<u>155,338</u>
	<u>\$ 161,994</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 68,916</u>
Due to Water and Sewer Fund from:	
General Fund	<u>\$ 299,551</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not yet cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and enterprise funds have been eliminated.

Transfers to General Fund from:	
Water and Sewer Fund	\$ 100,000
Marina Fund	<u>50,000</u>
	<u>\$ 150,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 12,071</u>
Transfers to Water and Sewer Fund from:	
Nonmajor governmental funds	<u>\$ 382,928</u>

The transfers from the Water and Sewer Fund to the General Fund were for operational costs. Transfers from the General Fund to other nonmajor governmental funds (Debt Service Fund) were to fund general operations. Transfers from nonmajor governmental funds to the Water and Sewer Fund were to fund current debt service payments.

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE E: CAPITAL ASSETS

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

Governmental activities

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 880,608	\$ -	\$ -	\$ 880,608
Capital assets being depreciated				
Land improvements	648,970	-	-	648,970
Machinery and equipment	498,327	-	-	498,327
Buildings	1,501,448	-	-	1,501,448
Vehicles	1,371,044	20,433	(65,384)	1,326,093
Infrastructure	8,450,033	-	-	8,450,033
Subtotal	12,469,822	20,433	(65,384)	\$ 12,424,871
Less accumulated depreciation for:				
Land improvements	(606,075)	(12,486)	-	(618,561)
Machinery and equipment	(397,484)	(19,336)	-	(416,820)
Buildings	(823,010)	(24,338)	-	(847,348)
Vehicles	(1,152,542)	(12,396)	27,914	(1,137,024)
Infrastructure	(5,541,261)	(168,332)	-	(5,709,593)
Subtotal	(8,520,372)	(236,888)	27,914	(8,729,346)
Net capital assets being depreciated	3,949,450	(216,455)	(37,470)	3,695,525
Capital assets, net	<u>\$ 4,830,058</u>	<u>\$ (216,455)</u>	<u>\$ (37,470)</u>	<u>\$ 4,576,133</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 29,510
Public safety	20,384
Public works	171,352
Recreation and culture	15,642
	<u>\$ 236,888</u>

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE E: CAPITAL ASSETS - CONTINUED

Business-type activities

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 5,053	\$ -	\$ -	\$ 5,053
Capital assets being depreciated				
Vehicles	121,231	-	-	121,231
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	23,606,679	-	-	23,606,679
Marina	9,010,854	-	-	9,010,854
Subtotal	32,991,964	-0-	-0-	32,991,964
Less accumulated depreciation for:				
Vehicles	(50,547)	(9,932)	-	(60,479)
Machinery and equipment	(18,700)	-	-	(18,700)
Buildings	(234,500)	-	-	(234,500)
Infrastructure	(14,846,872)	(470,912)	-	(15,317,784)
Marina	(5,058,651)	(180,217)	-	(5,238,868)
Subtotal	(20,209,270)	(661,061)	-0-	(20,870,331)
Net capital assets being depreciated	12,782,694	(661,061)	-0-	12,121,633
Capital assets, net	<u>\$ 12,787,747</u>	<u>\$ (661,061)</u>	<u>\$ -0-</u>	<u>\$ 12,126,686</u>

Depreciation expense was charged to the following business-type activities:

Water and sewer	\$ 480,844
Marina	<u>180,217</u>
	<u>\$ 661,061</u>

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2012:

	Restated Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities					
2004 Unlimited tax bonds	\$ 1,278,594	\$ -	\$ (64,950)	\$ 1,213,644	\$ 64,950
Compensated absences	731,332	33,775	(63,927)	701,180	44,984
Total governmental activities	2,009,926	33,775	(128,877)	1,914,824	109,934
Business-type activities					
General obligation bonds					
2003 Unlimited tax bonds	1,090,000	-	(195,000)	895,000	215,000
2004 Unlimited tax bonds	1,686,634	-	(85,050)	1,601,584	85,050
2007 Unlimited tax bonds	3,800,000	-	(50,000)	3,750,000	50,000
2007 Limited Tax Bonds Discount	(72,265)	-	7,922	(64,343)	(4,021)
Intergovernmental contractual agreement					
Mack Avenue water main	10,000	-	(10,000)	-	-
Compensated absences	17,323	2,716	(2,235)	17,804	-
Total business-type activities	6,531,692	2,716	(334,363)	6,200,045	346,029
	<u>\$ 8,541,618</u>	<u>\$ 36,491</u>	<u>\$ (463,240)</u>	<u>\$ 8,114,869</u>	<u>\$ 455,963</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Governmental Activities

\$3,500,000 2004 General Obligation Bonds, dated October 1, 2004, due in annual installments ranging from \$150,000 to \$325,000 through October 1, 2024, with interest ranging from 3.250 to 4.500 percent, payable semiannually. These bonds are allocated between governmental and business-type activities. The allocation is roughly 43 percent governmental activities and 57 percent business-type activities.

\$ 1,213,644

Business-type Activities

\$2,450,000 2003 General Obligation Bonds, dated February 27, 2003, due in annual installments ranging from \$215,000 to \$235,000 through October 1, 2015, with interest ranging from 3.55 to 3.80 percent, payable semiannually.

\$ 895,000

\$3,500,000 2004 General Obligation Bonds, dated October 1, 2004, due in annual installments ranging from \$150,000 to \$325,000 through October 1, 2024, with interest ranging from 3.250 to 4.500 percent, payable semiannually. These bonds are allocated between governmental and business-type activities. The allocation is roughly 43 percent governmental activities and 57 percent business-type activities.

1,601,584

\$3,800,000 2007 Limited Tax Bonds, dated October 1, 2007, due in annual installments ranging from \$50,000 to \$250,000 through October 1, 2036, with interest ranging from 4.00 to 4.40 percent, payable semiannually.

3,750,000

\$ 6,246,584

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for bonds and intergovernmental contractual agreement are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 64,950	\$ 47,641	\$ 350,050	\$ 248,367
2014	64,950	45,433	350,050	235,762
2015	64,950	43,159	370,050	222,541
2016	86,600	39,998	393,400	207,684
2017	86,600	36,751	163,400	197,062
2018-2022	476,300	128,341	1,123,700	855,871
2023-2027	369,294	18,857	1,245,934	584,787
2028-2032	-	-	1,000,000	378,000
2033-2037	-	-	1,250,000	136,563
	<u>\$ 1,213,644</u>	<u>\$ 360,180</u>	<u>\$ 6,246,584</u>	<u>\$ 3,066,637</u>

Defeased Debt

During prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2012, \$950,000 of bonds outstanding are considered defeased.

Compensated Absences

In accordance with the City personnel policies and/or contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. At June 30, 2012 the dollar amount of these vested rights, including related payroll taxes, amounted to \$701,180 and \$17,804 for sick leave in government activities and business-type activities, respectively.

NOTE G: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy period exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The City has not been informed of any special assessments being required.

The City participates in a State pool through the Michigan Municipal Risk Management Authority, with other municipalities for liability, property, torts, errors and omissions, personal injury, terrorism, automobile, and crime losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE G: RISK MANAGEMENT - CONTINUED

Effective May 1, 2005, the City became self-funded for medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. Settled claims related to medical insurance have not exceeded medical coverage in any of the past three years. The self-funding program is done in conjunction with the cities of Grosse Pointe Woods, Grosse Pointe, Grosse Pointe Farms, and Grosse Pointe Park. While the City serves as the administrative agent for the program, each individual municipality is responsible for its individual claims.

The City estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been incurred but not reported (IBNR). The City's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of the claims. Any adjustments resulting from the settlement of losses will be reflected at the time the adjustments are determined.

The following summarizes the changes in the estimated liability for the year ended June 30, 2012:

Estimated liability - July 1, 2011	\$ -
Estimated claims incurred including changes in estimates	388,069
Claim payments	<u>(388,069)</u>
Estimated liability - June 30, 2012	<u>\$ -0-</u>

NOTE H: DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the General and Public Safety Retirement System, which is the administrator of a single-employer public employees' retirement system that covers nearly all general and public safety employees of the City. The plan does not issue a separate financial report.

The system provides retirement, death and disability benefits to plan members and their beneficiaries. At June 30, 2012, membership was made up of 34 retirees and beneficiaries as well as 28 active employees.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due. Benefits and refunds are recognized when due and payable.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City charter. All full-time general and public safety employees are eligible to participate in the system. General participants in the system are required to contribute 3 percent of the first \$4,200 of annual salary. General participants must contribute 5 percent of annual salary in excess of \$4,200. Public safety participants are required to contribute 6 percent of their annual salary. Employer contributions are determined by actuarially determined rates. Administrative costs associated with the plan are financed through investment earnings.

Annual Pension Cost

The City's pension cost was \$505,463 for the period ended June 30, 2012. This amount represented 100 percent of the annual required contribution as determined as part of actuarial valuation for the 12-month period ended June 30, 2011, using the individual entry-age cost method.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Annual Pension Cost - continued

The most recent actuarial valuation is dated June 30, 2012. Significant actuarial assumptions used include a 7.5 percent investment rate of return and projected salary increases of 4.0 percent to 9.3 percent per year. An estimated rate of inflation of 4.0 percent is included in both the investment rate of return and projected salary increases. The actuarial value of assets was determined by using the 4-year smoothed market method. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis over the remaining amortization period of 20 years.

As of June 30, 2012, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 2,292,367
Reserve for retired benefit payments	6,392,849

Three (3) Year Trend Information

	Year Ended June 30,		
	2010	2011	2012
Actuarial value of assets	\$ 16,484,497	\$ 16,647,448	\$ 16,770,946
Actuarial accrued liability (AAL) (entry age)	19,166,129	18,994,231	20,038,036
Unfunded AAL (UAAL)	2,681,632	2,346,783	3,267,090
Funded ratio	86.0%	87.6%	83.7%
Covered payroll	2,517,597	2,330,936	1,841,767
UAAL as a percentage of covered payroll	106.5%	100.7%	177.4%
Annual pension cost (APC)	579,300	545,753	505,463
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

NOTE I: OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City provides retiree healthcare benefits to eligible employees and their spouses, in accordance with labor contracts. Benefits are provided to general and public safety employees. Currently, the plan has 69 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single employer defined benefit plan administered by the City. The benefits are provided in accordance with labor contracts. The plan does not issue a separate stand-alone financial statement.

Village of Grosse Pointe Shores, a Michigan City

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE I: OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funding Progress

For the year ended June 30, 2012 the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of March 31, 2009. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution	\$ 586,409
Interest on net OPEB obligation	45,245
Adjustment to annual required contribution	<u>(11,581)</u>
Annual OPEB cost (expense)	620,073
Contributions made	<u>(256,534)</u>
Increase in net OPEB obligation	363,539
Net OPEB obligation, beginning of year	<u>603,269</u>
Net OPEB obligation, end of year	<u><u>\$ 966,808</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation, were as follows:

	Year Ended June 30,		
	2010	2011	2012
Annual OPEB cost	\$ 588,409	\$ 595,963	\$ 620,073
Percentage contributed	47%	51%	41%
Net OPEB obligation	\$ 308,950	\$ 603,269	\$ 966,808

The funding progress of the plan as of the most recent valuation date is as follows:

	As of <u>March 31, 2009</u>
Actuarial value of assets	\$ 1,583,578
Actuarial accrued liability (AAL) (entry age)	8,758,484
Unfunded AAL (UAAL)	7,174,906
Funded ratio	18%
Covered payroll	2,649,837
UAAL as a percentage of covered payroll	-271%

The actuarial valuation as of March 31, 2009, was the first valuation completed. Three (3) year trend information is not available.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE I: OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

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 as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued 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.

In the March 31, 2009 actuarial valuation, the 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 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eight years. Both rates included a 5.5 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 an open basis. The remaining amortization period at March 31, 2009 was 30 years.

NOTE J: CONSTRUCTION CODE FEES

In accordance with Michigan Public Act 245 of 1999, the City is required to maintain a separate accounting system that separately accumulates revenues and expenditures related to the building department function.

As required under provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. The following is a summary of the activity for the year ended June 30, 2012:

REVENUES	
Permits	\$ 45,777
EXPENDITURES	
Salaries and wages	45,134
Supplies and other	<u>16,493</u>
TOTAL EXPENDITURES	<u>61,627</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(15,850)
PRIOR CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(273,877)</u>
CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>\$ (289,727)</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE K: RESTATEMENT OF BEGINNING NET ASSETS

Beginning net assets of the Water and Sewer Fund and Business-type activities have been adjusted for compensated absences that were previously unrecorded. Beginning net assets of the Water and Sewer Fund and Business-type activities were decreased \$17,323.

NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

The formal action required to be taken to establish a fund balance commitment is the adoption of a City ordinance.

For assigned fund balance, the Village of Grosse Pointe Shores, a Michigan City has not approved a policy indicating who is authorized to assign amounts to a specific purpose. In the absence of such a policy, authorization is deemed to rest with the City Council.

The Village of Grosse Pointe Shores, a Michigan City has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first. In the absence of such a policy, resources with the highest level of restriction will be used first.

NOTE M: SUBSEQUENT EVENT

The Grosse Pointe Yacht Club (GPYC) had asserted that it was overbilled for its water consumption by the Village of Grosse Pointe Shores during the period from August 2000 through the end of 2007. Since the claim was first formally asserted in approximately January 2010, GPYC and the City, as successor to the Village, had engaged in discussions and provided information to each other in an ongoing effort to resolve the claim.

On June 6, 2012, the parties met with a facilitator to attempt to reach an agreement to resolve the claim without the need for litigation. In July 2012, a formal agreement was signed under which the City will pay \$25,000 to the GPYC per year for each of the next 16 years. Such payments may be made by cash or in credits against water billings and boat well lease payments in connection with the boat well lease agreement between the parties paid on or before December 31 of each calendar year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE N: CONTINGENT LIABILITIES

There is legal action pending against the City. Due to the inconclusive nature of the action, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Management believes that the potential liability, if any, would be immaterial to the City's financial statements.

NOTE O: UPCOMING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement No. 39, 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.

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 June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. The statement will be effective for the City's 2013-2014 fiscal year. The statement will establish accounting and financial reporting requirements related to defined benefit pension plans and specify the required approach to measuring the pension liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement will be effective for the City's 2014-2015 fiscal year. The statement will require governments providing defined benefit pensions to 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. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Grosse Pointe Shores, a Michigan City

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,583,347	\$ 4,493,952	\$ 4,501,410	\$ 7,458
Intergovernmental - State	185,000	216,000	227,583	11,583
Licenses and permits	41,400	47,493	47,140	(353)
Charges for services	218,000	203,301	202,685	(616)
Fines and forfeits	190,000	186,000	193,217	7,217
Interest	4,000	4,100	4,134	34
Other	75,000	128,261	130,411	2,150
TOTAL REVENUES	5,296,747	5,279,107	5,306,580	27,473
EXPENDITURES				
Current				
General government				
City Council	12,100	12,952	10,545	2,407
Judicial	113,405	71,013	68,776	2,237
City Manager	334,318	310,557	315,134	(4,577)
Elections	21,562	21,287	20,184	1,103
Financial administration	310,749	353,885	333,841	20,044
Clerk	41,114	36,885	37,270	(385)
Assessor	13,000	9,944	9,981	(37)
City hall and grounds	378,304	375,202	366,993	8,209
Total general government	1,224,552	1,191,725	1,162,724	29,001
Public safety	2,403,720	2,398,805	2,337,214	61,591
Public works				
Sanitation	534,061	496,402	443,782	52,620
Building department	72,441	67,038	61,627	5,411
Other	364,813	400,456	415,377	(14,921)
Total public works	971,315	963,896	920,786	43,110
Community and economic development				
Planning and zoning	19,559	18,415	17,848	567

Village of Grosse Pointe Shores, a Michigan City

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture	\$ 304,601	\$ 299,092	\$ 273,608	\$ 25,484
Other				
Fringe benefits and insurance	523,000	557,174	527,213	29,961
TOTAL EXPENDITURES	5,446,747	5,429,107	5,239,393	189,714
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(150,000)	(150,000)	67,187	217,187
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	150,000	-0-
Transfers out	-	-	(12,071)	(12,071)
TOTAL OTHER FINANCING SOURCES (USES)	150,000	150,000	137,929	(12,071)
NET CHANGE IN FUND BALANCE	-0-	-0-	205,116	205,116
Fund balance, beginning of year	669,513	669,513	669,513	-0-
Fund balance, end of year	\$ 669,513	\$ 669,513	\$ 874,629	\$ 205,116

Village of Grosse Pointe Shores, a Michigan City

General and Public Safety Retirement System

SCHEDULE OF FUNDING PROGRESS

June 30, 2012

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Under/(Over) Funded Actuarial Accrued Liability (b-a)	Funded Ratio (Percent) (a/b)		Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (d)	
3/31/2005	\$ 15,757,277	\$ 15,286,827	\$ (470,450)	103.1	%	\$ 2,359,314	(19.9)	%
3/31/2006	16,320,244	16,024,922	(295,322)	101.8		2,491,921	(11.9)	
3/31/2007	16,964,753	16,792,449	(172,304)	101.0		2,483,532	(6.9)	
3/31/2008	17,260,899	17,551,340	290,441	98.3		2,516,931	11.5	
3/31/2009	16,305,054	18,845,443	2,540,389	86.5		2,649,837	95.9	
6/30/2010 *	16,484,497	19,166,129	2,681,632	86.0		2,517,597	106.5	
6/30/2011	16,647,448	18,994,231	2,346,783	87.6		2,330,936	100.7	
6/30/2012	16,770,946	20,038,036	3,267,090	83.7		1,841,767	177.4	

The schedule of employer contributions is as follows:

Year Ended	Annual Required Contribution	Percentage Contributed	
3/31/2005	\$ 198,111	68	%
3/31/2006	305,767	120	
3/31/2007	384,402	100	
3/31/2008	397,613	100	
3/31/2009	447,258	100	
6/30/2010 *	579,300	100	
6/30/2011	545,753	100	
6/30/2012	505,463	100	

* The actuarial valuation date was changed to June 30 beginning in 2010 in order to match the City's fiscal year end.

Village of Grosse Pointe Shores, a Michigan City

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the City's budgeted expenditures in the General Fund have been shown at the activity level. The City's budgeted expenditures for nonmajor Special Revenue Funds are not required to be reported in the financial statements. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2012, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
City manager	\$ 310,557	\$ 315,134	\$ 4,577
Clerk	36,885	37,270	385
Assessor	9,944	9,981	37
Public works			
Other	400,456	415,377	14,921
Transfers out	-	12,071	12,071

OTHER SUPPLEMENTARY INFORMATION

Village of Grosse Pointe Shores, a Michigan City

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2012

	Special Revenue			Debt Service	Total
	Major Street	Local Street	911 Service	2004 Unlimited Tax	
ASSETS					
Cash and cash equivalents	\$ 213,350	\$ 21,041	\$ -	\$ -	\$ 234,391
Due from other governmental units	20,195	8,767	-	-	28,962
Due from other funds	37,573	-	31,343	-	68,916
TOTAL ASSETS	\$ 271,118	\$ 29,808	\$ 31,343	\$ -0-	\$ 332,269
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ -	\$ 6,656	\$ -	\$ -	\$ 6,656
FUND BALANCES					
Restricted					
Streets and highways	271,118	23,152	-	-	294,270
911 Service	-	-	31,343	-	31,343
TOTAL FUND BALANCES	271,118	23,152	31,343	-0-	325,613
TOTAL LIABILITIES AND FUND BALANCES	\$ 271,118	\$ 29,808	\$ 31,343	\$ -0-	\$ 332,269

Village of Grosse Pointe Shores, a Michigan City

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	Special Revenue			Debt Service	Total
	Major Street	Local Street	911 Service	2004 Unlimited Tax	
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 486,799	\$ 486,799
Intergovernmental - State	120,721	52,633	-	-	173,354
Interest	229	9	-	-	238
Other	-	-	26,977	-	26,977
TOTAL REVENUES	120,950	52,642	26,977	486,799	687,368
EXPENDITURES					
Current					
Public safety	-	-	11,040	-	11,040
Public works	58,204	36,515	-	-	94,719
Debt service	-	-	-	115,942	115,942
TOTAL EXPENDITURES	58,204	36,515	11,040	115,942	221,701
EXCESS OF REVENUES OVER EXPENDITURES	62,746	16,127	15,937	370,857	465,667
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	12,071	12,071
Transfers out	-	-	-	(382,928)	(382,928)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-	(370,857)	(370,857)
NET CHANGE IN FUND BALANCES	62,746	16,127	15,937	-0-	94,810
Fund balances, beginning of year	208,372	7,025	15,406	-	230,803
Fund balances, end of year	<u>\$ 271,118</u>	<u>\$ 23,152</u>	<u>\$ 31,343</u>	<u>\$ -0-</u>	<u>\$ 325,613</u>

Village of Grosse Pointe Shores, a Michigan City

Pension and Employee Benefits Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	General and Public Safety Retirement System Fund	Retired Employees' Health Care Benefits Fund	Total
ASSETS			
Cash and cash equivalents	\$ 12,325,060	\$ -	\$ 12,325,060
Investments			
U.S. government securities	623,785	-	623,785
Foreign bonds	567,124	-	567,124
Corporate bonds and certificates of deposit	5,774,141	-	5,774,141
Due from other governmental units	-	2,142,253	2,142,253
Interest receivable	112,640	-	112,640
Prepays	-	9,699	9,699
	<u>19,402,750</u>	<u>2,151,952</u>	<u>21,554,702</u>
TOTAL ASSETS			
LIABILITIES			
Due to individuals and agencies	1,722	-	1,722
Due to other governmental units	2,142,253	-	2,142,253
	<u>2,143,975</u>	<u>-0-</u>	<u>2,143,975</u>
TOTAL LIABILITIES			
NET ASSETS			
Held in trust for pension and other employee benefits	<u>\$ 17,258,775</u>	<u>\$ 2,151,952</u>	<u>\$ 19,410,727</u>

Village of Grosse Pointe Shores, a Michigan City

Pension and Employee Benefits Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	General and Public Safety Retirement System Fund	Retired Employees' Health Care Benefits Fund	Total
ADDITIONS			
Investment income			
Interest, dividends, and net realized income on investments	\$ 614,009	\$ 77,747	\$ 691,756
Net change in fair value investments	(232,303)	-	(232,303)
Less investment expenses	(134,923)	-	(134,923)
Net investment income	246,783	77,747	324,530
Contributions			
Employer	505,463	256,534	761,997
Employee	124,410	11,253	135,663
Total contributions	629,873	267,787	897,660
TOTAL ADDITIONS	876,656	345,534	1,222,190
DEDUCTIONS			
Pension benefit payments	971,815	-	971,815
Healthcare benefit payments	-	256,534	256,534
TOTAL DEDUCTIONS	971,815	256,534	1,228,349
CHANGE IN PLAN NET ASSETS	(95,159)	89,000	(6,159)
Net assets, beginning of year	17,353,934	2,062,952	19,416,886
Net assets, end of year	<u>\$ 17,258,775</u>	<u>\$ 2,151,952</u>	<u>\$ 19,410,727</u>

Village of Grosse Pointe Shores, a Michigan City

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2012

	<u>Trust and Agency Fund</u>	<u>Tax Collection Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 66,237</u>	<u>\$ 3,596</u>	<u>\$ 69,833</u>
LIABILITIES			
Due to other governmental units	\$ -	\$ 2,019	\$ 2,019
Due to individuals and agencies	<u>66,237</u>	<u>1,577</u>	<u>67,814</u>
TOTAL LIABILITIES	<u>\$ 66,237</u>	<u>\$ 3,596</u>	<u>\$ 69,833</u>