

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

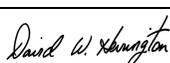
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address		City      State      Zip
Authorizing CPA Signature 	Printed Name	License Number

# **City of Grosse Pointe, Michigan**

---

**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Grosse Pointe, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets - Pension and Private Purpose Trust Funds	19
Notes to Financial Statements	20-41
<b>Required Supplemental Information</b>	42
Budgetary Comparison Schedule - General Fund	43
Budgetary Comparison Schedule - Major Special Revenue Funds	44
Pension System Schedule of Funding Progress and Employer Contributions	45
Postemployment Benefits Schedule of Funding Progress	46

# City of Grosse Pointe, Michigan

---

## Contents (Continued)

<b>Other Supplemental Information</b>	47
Nonmajor Governmental Funds:	
Combining Balance Sheet	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49
Fiduciary Funds:	
Combining Statement of Net Assets	50
Combining Statement of Changes in Net Assets	51

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Grosse Pointe, 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 City of Grosse Pointe, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grosse Pointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe, Michigan as of June 30, 2007 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.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Grosse Pointe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grosse Pointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 24, 2007

# **City of Grosse Pointe, Michigan**

---

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Grosse Pointe's financial performance provides an overview of the City of Grosse Pointe's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- The City began a long-term investment in its main business district by issuing \$3,600,000 of capital improvement bonds to finance a new parking structure.

### **Using this Annual Report**

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

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

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 4,668.2	\$ 5,778.0	\$ 5,155.0	\$ 1,601.6	\$ 9,823.2	\$ 7,379.6
Noncurrent assets	14,892.8	14,270.7	7,922.7	5,623.8	22,815.5	19,894.5
Total assets	19,561.0	20,048.7	13,077.7	7,225.4	32,638.7	27,274.1
<b>Liabilities</b>						
Current liabilities	405.3	1,130.5	448.7	218.3	854.0	1,348.8
Long-term liabilities	4,218.4	3,794.4	3,600.0	-	7,818.4	3,794.4
Total liabilities	4,623.7	4,924.9	4,048.7	218.3	8,672.4	5,143.2
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	9,887.5	10,465.8	4,322.8	5,623.8	14,210.3	16,089.6
Restricted	81.0	549.7	-	-	81.0	549.7
Unrestricted	4,968.8	4,108.3	4,706.2	1,383.3	9,675.0	5,491.6
Total net assets	<u>\$ 14,937.3</u>	<u>\$ 15,123.8</u>	<u>\$ 9,029.0</u>	<u>\$ 7,007.1</u>	<u>\$ 23,966.3</u>	<u>\$ 22,130.9</u>

The City of Grosse Pointe's combined net assets increased 8.3 percent from a year ago - increasing from \$22,131,000 to \$23,966,500. In contrast, last year's net assets increased by .07 percent. As we look at the business-type activities separately from the governmental-type activities, we can see that net assets from business-type increased 28.8 percent mainly due to the revenue from the sale of a City-owned municipal parking lot for commercial development in the central business district.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by \$860,500 for the governmental activities. This represents an increase of approximately 20.9 percent. The current level of unrestricted net assets for governmental activities stands at \$4,968,800, or about 53 percent of expenditures. The targeted range is between 10 percent and 20 percent of expenditures. The City plans to transfer the excess unrestricted net assets into a Capital Projects Fund to finance future purchases of capital equipment.

# City of Grosse Pointe, Michigan

## Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 506.1	\$ 539.4	\$ 2,602.6	\$ 2,506.1	\$ 3,108.7	\$ 3,045.5
Operating grants and contributions	320.7	410.4	-	-	320.7	410.4
Capital grants and contributions	6.8	63.3	-	-	6.8	63.3
General revenue:						
Property taxes	5,542.2	5,197.2	-	-	5,542.2	5,197.2
State-shared revenues	494.5	506.7	-	-	494.5	506.7
Investment income	399.3	180.5	146.2	-	545.5	180.5
Gain on sale of capital assets	-	-	1,162.7	-	1,162.7	-
Other	162.5	334.3	50.3	26.0	212.8	360.3
Total revenue	7,432.1	7,231.8	3,961.8	2,532.1	11,393.9	9,763.9
<b>Program Expenses</b>						
General government	923.0	868.7	-	-	923.0	868.7
Public safety	3,306.1	3,025.8	-	-	3,306.1	3,025.8
Public works	2,359.3	2,563.7	-	-	2,359.3	2,563.7
Recreation and culture	844.6	955.0	-	-	844.6	955.0
Interest on long-term debt	185.6	177.5	-	-	185.6	177.5
Water and sewer	-	-	1,529.8	1,539.4	1,529.8	1,539.4
Automobile parking	-	-	253.8	279.6	253.8	279.6
Marina	-	-	156.3	192.8	156.3	192.8
Total program expenses	7,618.6	7,590.7	1,939.9	2,011.8	9,558.5	9,602.5
<b>Change in Net Assets</b>	(186.5)	(358.9)	2,021.9	520.3	1,835.4	161.4
<b>Net Assets - Beginning of year</b>	15,123.8	15,482.8	7,007.1	6,486.8	22,130.9	21,969.5
<b>Net Assets - End of year</b>	<b>\$ 14,937.3</b>	<b>\$ 15,123.9</b>	<b>\$ 9,029.0</b>	<b>\$ 7,007.1</b>	<b>\$ 23,966.3</b>	<b>\$ 22,130.9</b>

### Governmental Activities

State-shared revenues were down nearly 2.5 percent over the prior year and are expected to continue to decline. Property tax revenue and related charges posted a 6.6 percent increase but are expected to level off in the future due to a sluggish housing market and stagnant economic growth in southeastern Michigan.

Program expenses were held in check by forgoing the purchase of capital equipment and while expenses increased in the public safety department due to retroactive wages paid this fiscal year under newly ratified labor contracts.

# **City of Grosse Pointe, Michigan**

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

### **Business-type Activities**

The City of Grosse Pointe's business-type activities consist of the Water and Sewer Fund, the Automobile Parking System Fund, and the Marina Fund. Water is supplied to residents from the City of Grosse Pointe Farms water treatment plant, and sewage is processed by the Detroit water and sewage system. All revenue in the business-type funds relies on charges to customers. Overall revenue from business-type activities increased 56 percent mainly due to the sale of a fixed asset of the Automobile Parking System Fund.

General program expenses were reduced by 3.7 percent overall in the business-type funds by purchasing fewer capital items.

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

Our analysis of the City of Grosse Pointe's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Grosse Pointe as a whole. The City of Grosse Pointe creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City of Grosse Pointe's major funds for 2006-2007 include the General Fund and the Local Street Fund.

The General Fund pays for most of the City of Grosse Pointe's governmental services. The most significant services are public safety and public works which have combined departmental expenses of \$4,292,200.

The Local Street Fund received \$88,500 in state revenue along with a contribution from the General Fund of \$290,900 to finance street maintenance and construction, including tree removal and replacement.

### **General Fund Budgetary Highlights**

Over the course of the year, the City of Grosse Pointe amended the budget to take into account events during the year. The most significant change was to increase the expense in the General Fund for public safety department by \$487,695. This was a result of the payout of compensatory time and also the settlement of union contracts. The City of Grosse Pointe's General Fund departments stayed below budget, resulting in total expenditures \$305,041 below budget. This allowed the General Fund's fund balance to increase from \$4,843,315 a year ago to \$5,148,356 at June 30, 2007.

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

At the June 30, 2007, the City of Grosse Pointe had \$38,978,011 invested in a broad range of capital assets, including land, buildings, police and fire equipment, public works equipment, roads, and water and sewer lines. The depreciated value of these assets is \$19,606,408.

# **City of Grosse Pointe, Michigan**

---

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

The City of Grosse Pointe issued Capital Improvement Bonds in the amount of \$3,600,000 to finance a new parking structure in the City's central business district. At June 30, 2007, \$436,950 is listed in a construction in progress account in the automobile parking system as expenses to date for this construction project.

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

The City of Grosse Pointe's 2007-2008 budget anticipates additional cuts in state revenue sharing of 7.8 percent, or a loss in revenue of \$36,440. The City's tax rate remains unchanged and tax revenue is expected to remain stable.

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

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

# City of Grosse Pointe, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 3,922,507	\$ 4,491,963	\$ 8,414,470
Receivables - Net	662,503	661,242	1,323,745
Internal balances (Note 4)	5,195	(5,195)	-
Prepaid and other assets	77,949	6,985	84,934
Noncurrent assets:			
Restricted assets (Note 1)	-	3,209,242	3,209,242
Advances to (from) other funds (Note 4)	1,410,309	(1,410,309)	-
Capital assets (Note 5):			
Nondepreciable capital assets	1,628,841	1,330,280	2,959,121
Depreciable capital assets - Net	<u>11,853,690</u>	<u>4,793,597</u>	<u>16,647,287</u>
Total assets	19,560,994	13,077,805	32,638,799
<b>Liabilities</b>			
Accounts payable	133,295	391,911	525,206
Accrued and other liabilities	271,898	7,928	279,826
Deferred revenue	-	48,836	48,836
Noncurrent liabilities:			
Due within one year (Note 6)	588,787	-	588,787
Due in more than one year (Note 6)	<u>3,629,611</u>	<u>3,600,000</u>	<u>7,229,611</u>
Total liabilities	<u>4,623,591</u>	<u>4,048,675</u>	<u>8,672,266</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	9,887,531	4,322,810	14,210,341
Restricted:			
Highway and streets	19,754	-	19,754
Police restricted use	61,294	-	61,294
Unrestricted	<u>4,968,824</u>	<u>4,706,320</u>	<u>9,675,144</u>
Total net assets	<u>\$ 14,937,403</u>	<u>\$ 9,029,130</u>	<u>\$ 23,966,533</u>

# City of Grosse Pointe, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 923,095	\$ 274,284	\$ -	\$ 6,800
Public safety	3,306,099	-	68,935	-
Public works	2,359,359	203,342	251,800	-
Recreation and culture	844,613	28,514	-	-
Interest on long-term debt	185,581	-	-	-
Total governmental activities	7,618,747	506,140	320,735	6,800
Business-type activities:				
Water and sewer	1,529,832	2,033,303	-	-
Automobile parking	253,769	407,818	-	-
Marina	156,237	161,507	-	-
Total business-type activities	1,939,838	2,602,628	-	-
Total primary government	<u>\$ 9,558,585</u>	<u>\$ 3,108,768</u>	<u>\$ 320,735</u>	<u>\$ 6,800</u>

General revenues:

Property taxes  
 State sources  
 Investment income  
 Gain on sale of capital assets  
 Miscellaneous revenue

Total general revenues

**Change in Net Assets**

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (642,011)	\$ -	\$ (642,011)
(3,237,164)	-	(3,237,164)
(1,904,217)	-	(1,904,217)
(816,099)	-	(816,099)
(185,581)	-	(185,581)
(6,785,072)	-	(6,785,072)
-	503,471	503,471
-	154,049	154,049
-	5,270	5,270
-	662,790	662,790
(6,785,072)	662,790	(6,122,282)
5,542,232	-	5,542,232
494,522	-	494,522
399,305	146,217	545,522
-	1,162,713	1,162,713
162,590	50,254	212,844
6,598,649	1,359,184	7,957,833
(186,423)	2,021,974	1,835,551
15,123,826	7,007,156	22,130,982
<b>\$ 14,937,403</b>	<b>\$ 9,029,130</b>	<b>\$ 23,966,533</b>

# City of Grosse Pointe, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Major Special Revenue Fund - Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 3,922,507	\$ -	\$ -	\$ 3,922,507
Receivables:				
Taxes	358,165	-	-	358,165
Interest	30,695	-	-	30,695
Other	54,216	-	-	54,216
Due from other funds (Note 4)	61,262	-	555,184	616,446
Advance to other funds (Note 4)	1,410,309	-	-	1,410,309
Due from other governmental units	159,678	19,550	40,199	219,427
Prepaid expenses and other assets	75,362	1,079	1,508	77,949
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 6,072,194</u>	<u>\$ 20,629</u>	<u>\$ 596,891</u>	<u>\$ 6,689,714</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 85,298	\$ 2,494	\$ 45,503	\$ 133,295
Due to other funds	602,793	8,458	-	611,251
Accrued and other liabilities	167,882	3,014	2,003	172,899
Cash bonds and deposits	42,275	-	-	42,275
Deferred revenue	25,590	-	-	25,590
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	923,838	13,966	47,506	985,310
<b>Fund Balances</b>				
Reserved for advances to other funds	1,410,309	-	-	1,410,309
Unreserved - Designated for capital projects	2,371,755	-	-	2,371,755
Unreserved, reported in:				
General Fund	1,366,292	-	-	1,366,292
Special Revenue Funds	-	6,663	549,385	556,048
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	5,148,356	6,663	549,385	5,704,404
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 6,072,194</u>	<u>\$ 20,629</u>	<u>\$ 596,891</u>	<u>\$ 6,689,714</u>

# City of Grosse Pointe, Michigan

---

## **Governmental Funds Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities June 30, 2007**

<b>Total Fund Balances of Governmental Funds</b>	\$ 5,704,404
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	13,482,531
Certain revenues in the governmental funds are deferred and will be recognized as revenue in the fund statements in future years	25,590
Compensated absences are not due and payable in the current period and are not reported in the funds	(623,398)
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(56,724)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(3,595,000)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 14,937,403</u></b>

# City of Grosse Pointe, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Major Special Revenue Fund - Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 5,329,799	\$ -	\$ 194,715	\$ 5,524,514
Licenses and permits	66,232	-	-	66,232
Federal sources	7,499	-	-	7,499
State sources	494,522	88,521	237,190	820,233
Charges for services	223,043	-	-	223,043
Fines and forfeitures	222,838	-	-	222,838
Investment income	399,305	-	-	399,305
Other	393,264	-	37,616	430,880
	<u>7,136,502</u>	<u>88,521</u>	<u>469,521</u>	<u>7,694,544</u>
Total revenue				
<b>Expenditures</b>				
General government	960,489	-	-	960,489
Judicial	140,754	-	-	140,754
Public safety	3,157,071	-	13,483	3,170,554
Public works	1,135,142	325,480	563,208	2,023,830
Recreation and culture	578,881	-	-	578,881
Debt service:				
Principal	-	-	210,000	210,000
Interest and other charges	-	-	171,671	171,671
Capital outlay	42,168	78,747	6,107	127,022
	<u>6,014,505</u>	<u>404,227</u>	<u>964,469</u>	<u>7,383,201</u>
Total expenditures				
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	1,121,997	(315,706)	(494,948)	311,343
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	290,891	526,065	816,956
Operating transfers out	(816,956)	-	-	(816,956)
	<u>(816,956)</u>	<u>290,891</u>	<u>526,065</u>	<u>-</u>
Total other financing sources (uses)				
<b>Net Change in Fund Balances</b>	305,041	(24,815)	31,117	311,343
<b>Fund Balances - Beginning of year</b>	<u>4,843,315</u>	<u>31,478</u>	<u>518,268</u>	<u>5,393,061</u>
<b>Fund Balances - End of year</b>	<u>\$ 5,148,356</u>	<u>\$ 6,663</u>	<u>\$ 549,385</u>	<u>\$ 5,704,404</u>

# City of Grosse Pointe, Michigan

---

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 311,343
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(788,263)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	210,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year	17,718
Interest expense is recorded when incurred in the statement of activities	(13,910)
Decrease in accumulated employee sick and vacation pay is recorded when paid in the governmental funds	<u>76,689</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (186,423)</u></u></b>

# City of Grosse Pointe, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Water and Sewage Disposal System	Automobile Parking System	Marina	Total Enterprise Funds
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 1,651,675	\$ 2,840,288	\$ -	\$ 4,491,963
Accounts receivable:				
Customers	625,308	-	-	625,308
Interest	14,130	19,874	-	34,004
Other	130	1,800	-	1,930
Due from other funds (Note 4)	22,029	-	29,748	51,777
Prepaid and other assets	4,675	2,174	136	6,985
Total current assets	2,317,947	2,864,136	29,884	5,211,967
Noncurrent assets:				
Restricted assets (Note 1)	-	3,209,242	-	3,209,242
Capital assets - Net (Note 5):				
Nondepreciable capital assets	-	1,330,280	-	1,330,280
Depreciable capital assets	2,677,532	135,387	1,980,678	4,793,597
Total noncurrent assets	2,677,532	4,674,909	1,980,678	9,333,119
Total assets	4,995,479	7,539,045	2,010,562	14,545,086
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	358,504	33,327	80	391,911
Due to other funds (Note 4)	-	52,804	4,168	56,972
Accrued and other liabilities	4,052	3,527	349	7,928
Unearned revenue	-	48,836	-	48,836
Total current liabilities	362,556	138,494	4,597	505,647
Noncurrent liabilities:				
Long-term debt (Note 6)	-	3,600,000	-	3,600,000
Advance from other funds (Note 4)	-	-	1,410,309	1,410,309
Total noncurrent liabilities	-	3,600,000	1,410,309	5,010,309
Total liabilities	362,556	3,738,494	1,414,906	5,515,956
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,677,532	1,074,909	570,369	4,322,810
Unrestricted	1,955,391	2,725,642	25,287	4,706,320
Total net assets	<u>\$ 4,632,923</u>	<u>\$ 3,800,551</u>	<u>\$ 595,656</u>	<u>\$ 9,029,130</u>

# City of Grosse Pointe, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Water and Sewage Disposal System	Automobile Parking System	Marina	Total Enterprise Funds
<b>Operating Revenue</b>				
Customer billings	\$ 2,013,945	\$ -	\$ -	\$ 2,013,945
Parking lot and meter charges	-	458,072	-	458,072
Marina rentals and charges for services	-	-	161,507	161,507
Miscellaneous revenue	19,358	-	-	19,358
Total operating revenue	2,033,303	458,072	161,507	2,652,882
<b>Operating Expenses</b>				
General and administrative	98,872	86,524	-	185,396
Cost of water	293,573	-	-	293,573
Cost of sewage disposal	766,308	-	-	766,308
Operation and maintenance	254,554	117,297	35,988	407,839
Depreciation	116,525	18,570	76,304	211,399
Total operating expenses	1,529,832	222,391	112,292	1,864,515
<b>Operating Income</b>	503,471	235,681	49,215	788,367
<b>Nonoperating Income (Expense)</b>				
Other expenses	-	(31,378)	-	(31,378)
Gain on sale of fixed assets	-	1,162,713	-	1,162,713
Investment income	59,825	86,392	-	146,217
Interest expense	-	-	(43,945)	(43,945)
Total nonoperating income (expense)	59,825	1,217,727	(43,945)	1,233,607
<b>Change in Net Assets</b>	563,296	1,453,408	5,270	2,021,974
<b>Net Assets - Beginning of year</b>	4,069,627	2,347,143	590,386	7,007,156
<b>Net Assets - End of year</b>	<b>\$ 4,632,923</b>	<b>\$ 3,800,551</b>	<b>\$ 595,656</b>	<b>\$ 9,029,130</b>

# City of Grosse Pointe, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Water and Sewage Disposal System	Automobile Parking System	Marina	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,968,566	\$ 458,072	\$ 161,507	\$ 2,588,145
Payments to suppliers	(1,044,513)	(65,226)	(30,449)	(1,140,188)
Payments to employees	(162,002)	(126,041)	(9,359)	(297,402)
Other receipts and payments	721,527	56,759	(23,240)	755,046
Net cash provided by operating activities	1,483,578	323,564	98,459	1,905,601
<b>Cash Flows from Capital and Related Financing Activities</b>				
Interest and principal paid on long-term debt	-	-	(98,459)	(98,459)
Bond issuance costs	-	(31,378)	-	(31,378)
Proceeds from the sale of capital assets	-	1,500,000	-	1,500,000
Purchase of capital assets	(552,313)	(496,418)	-	(1,048,731)
Net cash provided by (used in) capital and related financing activities	(552,313)	972,204	(98,459)	321,432
<b>Cash Flows from Investing Activities</b>				
Investment income	59,825	86,392	-	146,217
Proceeds from issuance of debt	-	3,600,000	-	3,600,000
Net cash provided by investing activities	59,825	3,686,392	-	3,746,217
<b>Net Increase in Cash and Cash Equivalents</b>	991,090	4,982,160	-	5,973,250
<b>Cash and Cash Equivalents - July 1, 2006</b>	660,585	1,067,370	-	1,727,955
<b>Cash and Cash Equivalents - June 30, 2007</b>	<b>\$ 1,651,675</b>	<b>\$ 6,049,530</b>	<b>\$ -</b>	<b>\$ 7,701,205</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 1,651,675	\$ 2,840,288	\$ -	\$ 4,491,963
Restricted assets	-	3,209,242	-	3,209,242
Total cash and cash equivalents	<b>\$ 1,651,675</b>	<b>\$ 6,049,530</b>	<b>\$ -</b>	<b>\$ 7,701,205</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>				
Operating income	\$ 503,471	\$ 235,681	\$ 49,215	\$ 788,367
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	116,525	18,570	76,304	211,399
Changes in assets and liabilities:				
Receivables	(64,737)	-	-	(64,737)
Prepaid assets	(11,802)	(16,812)	(122)	(28,736)
Due from other funds	733,294	5,967	(24,341)	714,920
Accounts payable	206,792	12,554	(3,820)	215,526
Accrued and other liabilities	35	(1,321)	-	(1,286)
Due to other funds	-	52,804	13	52,817
Deferred revenue	-	16,121	1,210	17,331
Net cash provided by operating activities	<b>\$ 1,483,578</b>	<b>\$ 323,564</b>	<b>\$ 98,459</b>	<b>\$ 1,905,601</b>

During the year ended June 30, 2007, there was no noncash activity.

# City of Grosse Pointe, Michigan

---

## Fiduciary Funds Statement of Net Assets June 30, 2007

	<u>Pension and Other Employee Benefit Plans</u>
<b>Assets</b>	
Investments:	
Corporate bonds and notes	\$ 3,948,454
U.S. federal agencies	4,274,767
Common and preferred stock	22,906,437
Mutual funds	3,364,555
Interest receivable	156,188
Other receivable	21,647
Prepaid expenses	<u>108,608</u>
 Total assets	 34,780,656
 <b>Liabilities - Accounts payable</b>	 <u>1,462</u>
 <b>Net Assets</b>	
Held in trust for pension benefits	33,190,799
Held in trust for postemployment health benefits	<u>1,588,395</u>
 Total net assets	 <u><u>\$ 34,779,194</u></u>

# City of Grosse Pointe, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Pension and Private Purpose Trust Funds Year Ended June 30, 2007

	<u>Pension and Other Employee Benefit Plans</u>
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,129,412
Net appreciation in fair value of investments	3,921,203
Less investment expenses	<u>(215,924)</u>
Net investment income	4,834,691
Contributions:	
Employer	199,250
Employee	<u>193,046</u>
Total contributions	<u>392,296</u>
Total additions	5,226,987
<b>Deductions</b>	
Benefit payments	1,077,823
Health insurance payments	<u>477,589</u>
Total deductions	<u>1,555,412</u>
<b>Net Increase</b>	3,671,575
<b>Net Assets</b>	
Beginning of year	<u>31,107,619</u>
End of year	<u><u>\$ 34,779,194</u></u>

# City of Grosse Pointe, Michigan

---

**Notes to Financial Statements  
June 30, 2007**

## **Note I - Summary of Significant Accounting Policies**

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

### **Reporting Entity**

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

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

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

## **Note I - Summary of Significant Accounting Policies (Continued)**

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

The City reports the following major governmental funds:

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

**Local Streets Fund** - The Local Streets Fund accounts for financial resources to be used for the maintenance and construction of local roads.

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Postemployment Benefits Fund** - The Postemployment Benefits Fund accounts for the postemployment health care payments to qualified employees.

### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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

**Restricted Assets** - The City has cash from the issuance of debt of \$3,209,242 that is restricted to be used for parking structure construction.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

The 2006 taxable valuation of the City totaled \$389 million, on which ad valorem taxes levied consisted of 11.8391 mills for the City's operating purposes, 1.1609 for rubbish collection, and .5000 mills for City debt. The ad valorem taxes levied raised \$4.6 million for operations (taxes are reflected in the General Fund), \$450,000 for rubbish collection, and \$194,000 for City debt.

The delinquent real property taxes of the City are purchased by Wayne County. The county sells tax notes, the proceeds of which are used to pay the City for these property taxes. Wayne County remitted its purchased delinquent real property taxes in July 2007. Wayne County's delinquent real property taxes have been recorded as revenue in the current year.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Significant bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

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

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

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

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

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

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

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, there were no expenditures that were significantly in excess of the amounts budgeted.

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

Cumulative excess at July 1, 2006	\$ 4,541
Current year building permit revenue	61,161
Direct expenses	<u>(101,089)</u>
Cumulative shortfall at June 30, 2007	<u>\$ (35,387)</u>

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

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

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

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

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk. At year end, the City had \$8,462,564 of bank deposits (certificates of deposit, checking, and savings accounts). Of that amount, approximately \$3,800,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

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

Investment Type	Fair Value	Less than		
		1 Year	1-5 Years	6-10 Years
<b>Primary Government</b>				
U.S. government agencies and securities	\$ 2,973,338	\$ 456,439	\$ 2,419,336	\$ 97,563
<b>Fiduciary Funds</b>				
U.S. government agencies and securities:				
Corporate - Fixed	4,016,646	463,436	3,051,582	501,628
U.S. federal agencies - Fixed	4,312,627	709,089	1,353,434	2,250,104
Mutual funds	3,364,556	3,364,556	-	-

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

Investment Type	Fair Value	Rating	
		Rating	Organization
<b>Primary Government</b>			
U.S. government agencies and securities	\$ 2,973,338	AAA	S & P
Sweep accounts	187,195	Aaa	Moody's

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

Investment Type	Fair Value	Rating	Rating Organization
<b>Fiduciary Funds</b>			
U.S. government agencies and securities:			
Corporate bonds	\$ 246,000	AAA	S & P
	614,000	AA	S & P
	1,693,000	A	S & P
	415,000	BBB	S & P
	654,000	BB	S & P
	395,000	B	S & P
U.S. government - Agency	3,812,000	AAA	S & P
	500,000	NR	N/A
Mutual funds	2,641,426	AAA	S & P
Mutual funds	723,130	AAAm	S & P

**Concentration of Credit Risk** - The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

#### Governmental Activities

U.S. government agencies and securities:

Federal Home Loan Bank	44.96%
Federal Home Loan Mortgage Corp.	10.70%
Federal Farm Credit Bank	13.26%
Federal National Mortgage Association	27.72%

#### Fiduciary Funds

Equity securities:

Comerica	7.63%
Target	5.12%

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

The composition of interfund receivables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Local Street Fund	\$ 8,458
	Parking System Fund	<u>52,804</u>
	Total General Fund	61,262
Nonmajor governmental funds	General Fund	555,184
Enterprise Funds:		
Water and Sewer Fund	General Fund	17,861
	Marina Fund	<u>4,168</u>
	Total Water and Sewer Fund	<u>22,029</u>
Marina Fund	General Fund	<u>29,748</u>
	Total	<u>\$ 668,223</u>

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

The composition of advances between funds at June 30, 2007 is as follows:

Advance From	Advance To	Amount
<b>Advances from/to Other Funds</b>		
General Fund	Marina Fund	<u>\$ 1,410,309</u>

In 2003, the General Fund advanced approximately \$1.5 million to the Marina Fund. The advance is being repaid to the General Fund over 20 years at a 3 percent interest rate.

Interfund transfers reported in the fund statements were as follows:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Local Streets Fund (1)	\$ 290,891
	Nonmajor governmental funds (1) (2)	<u>526,065</u>
	Total	<u>\$ 816,956</u>

(1) Transfer allowed under State law Act 51 for maintenance

(2) Transfer of discretionary funds to offset debt payments

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

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

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated - Land	\$ 1,628,841	\$ -	\$ -	\$ 1,628,841
Capital assets being depreciated:				
Building	4,539,265	-	-	4,539,265
Vehicles and equipment	1,989,150	37,111	(9,560)	2,016,701
Improvements	4,804,834	-	-	4,804,834
Elworthy parks and recreation	482,072	-	-	482,072
Other	742,736	42,381	(9,800)	775,317
Infrastructure	<u>14,701,554</u>	<u>404,758</u>	<u>-</u>	<u>15,106,312</u>
Subtotal	27,259,611	484,250	(19,360)	27,724,501
Accumulated depreciation:				
Building	1,163,076	212,195	-	1,375,271
Vehicles and equipment	1,314,578	144,566	(9,560)	1,449,584
Improvements	1,558,784	218,305	-	1,777,089
Elworthy parks and recreation	340,383	21,255	-	361,638
Other	474,940	53,304	(9,800)	518,444
Infrastructure	<u>9,765,897</u>	<u>622,888</u>	<u>-</u>	<u>10,388,785</u>
Subtotal	<u>14,617,658</u>	<u>1,272,513</u>	<u>(19,360)</u>	<u>15,870,811</u>
Net capital assets being depreciated	<u>12,641,953</u>	<u>(788,263)</u>	<u>-</u>	<u>11,853,690</u>
Net governmental capital assets	<u>\$ 14,270,794</u>	<u>\$ (788,263)</u>	<u>\$ -</u>	<u>\$ 13,482,531</u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type activities:				
Water and sewer capital assets:				
Capital assets being depreciated:				
Water infrastructure	\$ 3,630,972	\$ 302,425	\$ -	\$ 3,933,397
Sewer rehabilitation	794,358	249,890	-	1,044,248
Vehicles and equipment	474,814	-	-	474,814
Subtotal	4,900,144	552,315	-	5,452,459
Accumulated depreciation:				
Water infrastructure	2,014,732	60,742	-	2,075,474
Sewer rehabilitation	310,797	19,515	-	330,312
Vehicles and equipment	332,873	36,268	-	369,141
Subtotal	2,658,402	116,525	-	2,774,927
Net water and sewer capital assets	2,241,742	435,790	-	2,677,532
Automobile parking system capital assets:				
Capital assets not being depreciated:				
Land and land improvements	991,044	-	(97,707)	893,337
Construction in progress	17,545	419,398	-	436,943
Subtotal	1,008,589	419,398	(97,707)	1,330,280
Capital assets being depreciated:				
Parking lot and improvements	1,566,928	25,735	(1,307,070)	285,593
Parking meters	158,909	51,288	-	210,197
Vehicles and equipment	95,066	-	-	95,066
Subtotal	1,820,903	77,023	(1,307,070)	590,856
Accumulated depreciation:				
Parking lot and improvements	1,285,432	15,221	(1,067,488)	233,165
Parking meters	124,551	2,687	-	127,238
Vehicles and equipment	94,404	662	-	95,066
Subtotal	1,504,387	18,570	(1,067,488)	455,469
Net capital assets being depreciated	316,516	58,453	(239,582)	135,387
Net automobile parking capital assets	1,325,105	477,851	(337,289)	1,465,667

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type activities (Continued):				
Marina capital assets:				
Capital assets being depreciated:				
Marina	\$ 2,175,034	\$ -	\$ -	\$ 2,175,034
Kayak landing and storage	76,040	-	-	76,040
Subtotal	2,251,074	-	-	2,251,074
Accumulated depreciation:				
Marina	180,785	72,502	-	253,287
Kayak landing and storage	13,307	3,802	-	17,109
Subtotal	194,092	76,304	-	270,396
Net marina capital assets	<u>2,056,982</u>	<u>(76,304)</u>	-	<u>1,980,678</u>
Net business-type activity capital assets	<u>\$ 5,623,829</u>	<u>\$ 837,337</u>	<u>\$ (337,289)</u>	<u>\$ 6,123,877</u>

During the year, the City sold a parking lot valued at \$97,707. The property was sold for \$1,500,000, resulting in a gain of \$1,402,293.

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

Governmental activities:	
General government	\$ 55,596
Public safety	116,859
Public works	859,081
Recreation and culture	240,977
Total governmental activities	<u>\$ 1,272,513</u>
Business-type activities:	
Water and sewer	\$ 116,525
Automobile parking	18,570
Marina	76,304
Total business-type activities	<u>\$ 211,399</u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has an active construction project at year end related to the parking structure. At year end, the City's commitment with contractors is as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Parking structure	\$ 436,943	\$ 4,004,400

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Other long-term obligations include compensated absences, claims and judgments, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:						
2001 Limited Tax General Obligation						
Building Authority Bonds						
Amount of issue - \$1,910,000	4.20% -					
Maturing through 2014	4.90%	\$ 1,430,000	\$ -	\$ (135,000)	\$ 1,295,000	\$ 135,000
2001 Unlimited Tax General Obligation Bonds						
Amount of issue - \$2,600,000	4.30% -					
Maturing through 2020	5.00%	2,375,000	-	(75,000)	2,300,000	75,000
Compensated absences		700,087	45,164	(121,853)	623,398	378,787
Total governmental activities		4,505,087	45,164	(331,853)	4,218,398	588,787
Business-type activities:						
2007 Limited Tax Obligation						
Capital Improvement Bonds						
Amount of issue - \$3,600,000	4.00%					
Maturing through 2031	4.10%	-	3,600,000	-	3,600,000	-
Total governmental and business-type activities		\$ 4,505,087	\$ 3,645,164	\$ (331,853)	\$ 7,818,398	\$ 588,787

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

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

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 210,000	\$ 162,450	\$ 372,450	\$ -	\$ 132,470	\$ 132,470
2009	235,000	152,950	387,950	75,000	143,013	218,013
2010	255,000	142,287	397,287	75,000	140,013	215,013
2011	280,000	130,377	410,377	100,000	136,513	236,513
2012	300,000	117,240	417,240	100,000	132,513	232,513
2013-2017	1,390,000	370,013	1,760,013	525,000	602,063	1,127,063
2018-2022	925,000	91,304	1,016,304	675,000	483,638	1,158,638
2023-2027	-	-	-	900,000	331,269	1,231,269
2028-2031	-	-	-	1,150,000	122,950	1,272,950
Total	\$ 3,595,000	\$ 1,166,621	\$ 4,761,621	\$ 3,600,000	\$ 2,224,442	\$ 5,824,442

### Note 7 - Risk Management

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

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

### Note 8 - Retirement Plan

**Plan Description** - The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe; this plan covers all full-time employees of the City. The system provides retirement and postemployment benefits as well as disability and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 46 retirees and beneficiaries currently receiving benefits and two terminated employees entitled to benefits but not yet receiving them, and 51 current active employees. The plan does not issue a separate financial report.

## **Note 8 - Retirement Plan (Continued)**

### **Annual Pension Costs**

For the year ended June 30, 2007, the City's annual pension costs were fully funded with credits resulting from amortization of plan assets in excess of plan liabilities. The City was not required to and did not make a contribution during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return, (b) projected salary increases of 5.5 percent to 9.5 percent per year. An inflation component of 5 percent is included in (b) above. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

### **Contributions**

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

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

### **Reserve Balances**

The reserve for employee contributions is a legally required reserve and at June 30, 2007, the reserve was \$2,498,798.

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Retirement Plan (Continued)

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
Employees' retirement system:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	\$ -	\$ -	\$ -

### Financial Statement Information

As of June 30, 2007, the statement of net assets for the pension plan is as follows:

#### Assets

##### Investments:

Corporate bonds and notes	\$ 3,948,454
U.S. federal agencies	3,438,673
Common and preferred stock	22,906,437
Mutual funds	2,641,425
Interest receivable	149,320
Other receivable	14,353
Prepaid expenses	93,484

Total assets 33,192,146

**Liabilities** - Accounts payable 1,347

#### Net Assets

Held in trust for pension benefits	33,190,799
Held in trust for postemployment health benefits	-

Total net assets \$ 33,190,799

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Retirement Plan (Continued)

For the year ended June 30, 2007, the statement of changes in net assets for the pension plan is as follows:

#### Additions

Investment income:	
Interest and dividends	\$ 1,058,517
Net appreciation in fair value of investments	3,783,088
Less investment expenses	<u>(215,605)</u>
Net investment income	4,626,000
Contributions - Employee	<u>193,046</u>
Total additions	4,819,046

#### Deductions

Benefit payments	1,077,823
Health insurance payments	<u>199,250</u>
Total deductions	<u>1,277,073</u>

**Net Increase** 3,541,973

#### Net Assets

Beginning of year	<u>29,648,826</u>
End of year	<u><u>\$ 33,190,799</u></u>

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

### Note 9 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts and with the City of Grosse Pointe Post-Employment Health Care Benefits plan (the "Plan"). The Plan was established by ordinance and created by a 420 transfer from excess reserves in the City of Grosse Pointe Employees' Retirement System fund on June 30, 2006. Currently, 39 retirees are eligible and receiving benefits and one eligible retiree has chosen not to participate. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with some retired employee groups contributing a portion of the cost. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits were paid by the General Fund as the insurance premiums became due; during the year, this amounted to approximately \$278,000. Contributions to the healthcare plan amounted to \$199,250.

#### Financial Statement Information

As of June 30, 2007, the statement of net assets for the postemployment health benefits plan is as follows:

#### **Assets**

Cash and cash equivalents	\$	-
Investments:		
Corporate bonds and notes		-
U.S. federal agencies		836,094
Common and preferred stock		-
Mutual funds		723,130
Interest receivable		6,868
Other receivable		7,294
Prepaid expenses		15,124

Total assets 1,588,510

**Liabilities** - Accounts payable 115

**Net Assets** - Held in trust for pension benefits 1,588,395

Total net assets \$ 1,588,395

# City of Grosse Pointe, Michigan

## Notes to Financial Statements June 30, 2007

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

For the year ended June 30, 2007, the statement of changes in net assets for the postemployment health benefits plan is as follows:

#### Additions

Investment income:

Interest and dividends	\$	70,895
Net appreciation in fair value of investments		117,151
Less investment expenses		(319)
Other		20,964

Net investment income 208,691

Contributions - Employer 199,250

Total additions 407,941

**Deductions** - Health insurance payments 278,339

**Net Increase** 129,602

#### Net Assets Held in Trust for Pension Benefits

Beginning of year		1,458,793
End of year	\$	<u>1,588,395</u>

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

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

## **Note 10 - Joint Venture**

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

The City's interest in the net assets of the Authority totaled approximately \$17,000 at June 30, 2007 and is reported as part of the governmental activities in the statement of net assets. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

## **Required Supplemental Information**

---

# City of Grosse Pointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 5,258,342	\$ 5,258,342	\$ 5,329,799	\$ 71,457
Licenses and permits	89,200	89,200	66,232	(22,968)
Federal sources	59,000	59,000	7,499	(51,501)
State sources	508,543	508,543	494,522	(14,021)
Charges for services	210,300	210,300	223,043	12,743
Fines and forfeitures	203,500	203,500	222,838	19,338
Investment income	250,000	250,000	399,305	149,305
Other	377,200	377,200	393,264	16,064
Total revenue	6,956,085	6,956,085	7,136,502	180,417
<b>Expenditures</b>				
General government	1,166,246	1,166,246	960,489	205,757
Judicial	141,250	141,250	140,754	496
Public safety	2,674,229	3,161,924	3,157,071	4,853
Public works	1,223,804	1,223,804	1,135,142	88,662
Recreation and culture	609,241	609,241	578,881	30,360
Capital outlay	122,600	122,600	42,168	80,432
Total expenditures	5,937,370	6,425,065	6,014,505	410,560
<b>Excess of Revenue Over Expenditures</b>	1,018,715	531,020	1,121,997	590,977
<b>Other Financing Uses - Operating transfers out</b>	(1,016,110)	(817,110)	(816,956)	154
<b>Net Change in Fund Balances</b>	2,605	(286,090)	305,041	591,131
<b>Fund Balances - Beginning of year</b>	4,843,315	4,843,315	4,843,315	-
<b>Fund Balances - End of year</b>	<b>\$ 4,845,920</b>	<b>\$ 4,557,225</b>	<b>\$ 5,148,356</b>	<b>\$ 591,131</b>

# City of Grosse Pointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2007

	Local Streets			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues - State sources</b>	\$ 78,000	\$ 84,000	\$ 88,521	\$ 4,521
<b>Expenditures</b>				
Construction	155,500	155,500	78,747	76,753
Routine maintenance	303,701	303,701	279,374	24,327
Winter maintenance	20,305	20,305	17,412	2,893
Traffic services	3,000	3,000	2,741	259
Administration	29,200	29,200	25,953	3,247
Total expenditures	511,706	511,706	404,227	107,479
<b>Excess of Expenditures Over Revenue</b>	(433,706)	(427,706)	(315,706)	112,000
<b>Other Financing Sources - Operating transfers in</b>	478,206	478,206	290,891	(187,315)
<b>Net Change in Fund Balances</b>	44,500	50,500	(24,815)	(75,315)
<b>Fund Balances - Beginning of year</b>	31,478	31,478	31,478	-
<b>Fund Balances - End of year</b>	<b>\$ 75,978</b>	<b>\$ 81,978</b>	<b>\$ 6,663</b>	<b>\$ (75,315)</b>

# City of Grosse Pointe, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress and Employer Contributions June 30, 2007

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
*12/31/00	\$ 30,261,530	\$ 16,924,392	\$ 13,337,138	178.8	\$ 2,598,727	513.2
12/31/02	27,681,156	19,081,040	8,600,116	145.1	2,595,147	331.4
12/31/03	29,139,491	18,887,820	10,251,671	154.3	2,902,824	353.2
12/31/04	30,277,581	19,566,266	10,711,315	154.7	2,750,353	389.5
12/31/05	30,876,362	20,458,379	10,417,983	150.9	3,063,467	340.1
**06/30/06	31,089,837	20,664,559	10,425,278	150.5	3,063,467	340.3

\* There was no actuarial valuation performed as of December 31, 2001.

\*\* The City changed the actuarial date from December to June to match the City's fiscal year.

The schedule of employer contributions for the City's pension system is as follows:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	\$ -	N/A
2003	-	N/A
2004	-	N/A
2005	-	N/A
2006	-	N/A
2007	-	N/A

Additional information as of June 30, 2006, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5%-9.5%
Cost of living adjustments	None

\*Includes inflation at 5 percent

# City of Grosse Pointe, Michigan

## Required Supplemental Information Postemployment Benefits Schedule of Funding Progress June 30, 2007

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
12/31/00	\$ 2,551,571	\$ 3,107,305	\$ 555,734	82.1	\$ 2,598,727	21.4
*12/31/02	1,403,232	2,254,340	851,108	62.2	2,595,147	32.8
12/31/03	1,403,232	2,753,152	1,349,920	51.0	2,902,824	46.5
12/31/04	1,403,232	2,988,814	1,585,582	46.9	2,750,353	57.7
**06/30/06	1,543,474	*** 6,921,083	5,377,609	22.3	3,063,467	175.5

\* There was no actuarial valuation performed as of December 31, 2001 and 2005.

\*\* The City changed the actuarial date from December to June to match the City's fiscal year.

\*\*\* In the actuarial report for June 30, 2006, the actuary began computing the actuarial accrued liability based on current retirees and current active employees. Prior to that, the calculation was only computed for current retirees.

Additional information as of June 30, 2006, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	None
Cost of living adjustments	None

\*Includes inflation at 5 percent

## **Other Supplemental Information**

---

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Nonmajor Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Street Fund	Drug Forfeiture	Budget Stabilization	Debt Service	
<b>Assets</b>					
Due from other funds	\$ 18,890	\$ 61,294	\$ 475,000	\$ -	\$ 555,184
Due from other governmental units	40,199	-	-	-	40,199
Prepaid expenses	1,508	-	-	-	1,508
Total assets	<u>\$ 60,597</u>	<u>\$ 61,294</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 596,891</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 45,503	\$ -	\$ -	\$ -	\$ 45,503
Accrued and other liabilities	2,003	-	-	-	2,003
Total liabilities	47,506	-	-	-	47,506
<b>Fund Balances - Unreserved</b>	<u>13,091</u>	<u>61,294</u>	<u>475,000</u>	<u>-</u>	<u>549,385</u>
Total liabilities and fund balances	<u>\$ 60,597</u>	<u>\$ 61,294</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 596,891</u>

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	<u>Nonmajor Special Revenue Funds</u>				Total Nonmajor Governmental Funds
	Major Streets	Drug Forfeiture	Budget Stabilization	Debt Service	
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ 194,715	\$ 194,715
State sources	237,190	-	-	-	237,190
Other	-	37,616	-	-	37,616
	<u>237,190</u>	<u>37,616</u>	<u>-</u>	<u>194,715</u>	<u>469,521</u>
Total revenue					
	237,190	37,616	-	194,715	469,521
<b>Expenditures</b>					
Public safety	-	13,483	-	-	13,483
Public works:					
Construction	328,990	-	-	-	328,990
Routine maintenance	177,405	-	-	-	177,405
Winter maintenance	24,636	-	-	-	24,636
Traffic service	15,959	-	-	-	15,959
Administration	16,218	-	-	-	16,218
Debt service:					
Principal	-	-	-	210,000	210,000
Interest and fiscal charges	-	-	-	171,671	171,671
Capital outlay	-	6,107	-	-	6,107
	<u>563,208</u>	<u>19,590</u>	<u>-</u>	<u>381,671</u>	<u>964,469</u>
Total expenditures					
	563,208	19,590	-	381,671	964,469
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	(326,018)	18,026	-	(186,956)	(494,948)
<b>Other Financing Sources</b> - Operating transfers in	339,109	-	-	186,956	526,065
<b>Net Change in Fund Balances</b>	13,091	18,026	-	-	31,117
<b>Fund Balances</b> - Beginning of year	-	43,268	475,000	-	518,268
<b>Fund Balances</b> - End of year	<u>\$ 13,091</u>	<u>\$ 61,294</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 549,385</u>

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds Year Ended June 30, 2007

	Pension Trust Fund	Postemployment Health Benefits Trust Fund	Total
<b>Assets</b>			
Investments:			
Corporate bonds and notes	\$ 3,948,454	\$ -	\$ 3,948,454
U.S. federal agencies	3,438,673	836,094	4,274,767
Common and preferred stock	22,906,437	-	22,906,437
Mutual funds	2,641,425	723,130	3,364,555
Interest receivable	149,320	6,868	156,188
Other receivable	14,353	7,294	21,647
Prepaid expenses	93,484	15,124	108,608
Total assets	33,192,146	1,588,510	34,780,656
<b>Liabilities</b> - Accounts payable	1,347	115	1,462
<b>Net Assets</b>			
Held in trust for pension benefits	33,190,799	-	33,190,799
Held in trust for postemployment health benefits	-	1,588,395	1,588,395
Total net assets	\$ 33,190,799	\$ 1,588,395	\$ 34,779,194

# City of Grosse Pointe, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2007

	Pension Trust Fund	Postemployment Health Benefits Trust Fund	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,058,517	\$ 70,895	\$ 1,129,412
Net appreciation in fair value of investments	3,783,088	138,115	3,921,203
Less investment expenses	<u>(215,605)</u>	<u>(319)</u>	<u>(215,924)</u>
Net investment income	4,626,000	208,691	4,834,691
Contributions:			
Employer	-	199,250	199,250
Employee	<u>193,046</u>	<u>-</u>	<u>193,046</u>
Total contributions	<u>193,046</u>	<u>199,250</u>	<u>392,296</u>
Total additions	4,819,046	407,941	5,226,987
<b>Deductions</b>			
Benefit payments	1,077,823	-	1,077,823
Health insurance payments	<u>199,250</u>	<u>278,339</u>	<u>477,589</u>
Total deductions	<u>1,277,073</u>	<u>278,339</u>	<u>1,555,412</u>
<b>Net Increase</b>	3,541,973	129,602	3,671,575
<b>Net Assets</b>			
Beginning of year	<u>29,648,826</u>	<u>1,458,793</u>	<u>31,107,619</u>
End of year	<u><b>\$ 33,190,799</b></u>	<u><b>\$ 1,588,395</b></u>	<u><b>\$ 34,779,194</b></u>

October 24, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Grosse Pointe  
17147 Maumee Avenue  
Grosse Pointe, MI 48230

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of the City of Grosse Pointe (the "City") for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **Report on Internal Controls**

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the City's financial management. Specifically, they require us to report internal control issues to you that meet certain thresholds as described below, but may also be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new communication will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues. As a point of reference, our experience indicates that a first year audit client of Plante & Moran, PLLC typically results in an increased level of required audit communications.

In planning and performing our audit of the basic financial statements of the City of Grosse Pointe and for the year ended June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be control deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following items to be control deficiencies:

- **Pension Reconciliation** - Prior to the beginning of the audit, the finance director noted that the pension contributions and benefit payments were being recorded in the general ledger during the year. However, the general ledger was not being reconciled to the monthly pension statements provided by Comerica Bank. The City implemented the procedure of preparing monthly pension reconciliations in July 2007. This added control helps to identify any errors or misstatements on a timely basis and ensures the completeness of the accounting records.
- **Payroll** - While reviewing the City's internal controls, we noted that the same individual has the ability to change pay rates, make manual journal entries, and is responsible for reviewing payroll journals for accuracy. While we understand that the number of employees in the accounting department limits the ability to segregate duties, we encourage the City to review their policies regarding payroll and implement new control procedures which better segregate these duties. The City has indicated that it will implement a procedure in fiscal year 2008 in which the city manager will periodically review the payroll registers during the year for accuracy of pay rates.

In addition to the above, we have identified the items listed below that we would like to communicate as a result of our audit:

- **Manual Journal Entries** - During the audit, we noted that there is not a review process in place over manual journal entries initiated by the finance director. All manual journal entries should be reviewed for propriety by another individual. We encourage the City, in order to increase its internal controls, to implement review procedures in this area.
- **Compensated Absences** - We noted that the City records the entire liability related to compensated absences in its governmental activities. For all proprietary fund employees, this liability should be recorded in each respective fund. Plante & Moran proposed an entry and the City passed on the adjustment to correct this in the current year. We recommend, and the City concurs, that the City record the liability in the proper funds going forward.

## **New Auditing Standards**

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

To the Honorable Mayor and  
Members of the City Council  
City of Grosse Pointe

4

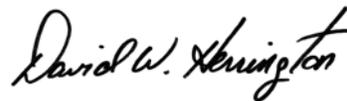
October 24, 2007

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the board will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

We would like to thank the mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



David W. Herrington



Pamela L. Hill