

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Fiscal Year Ended June 30, 2016

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**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

**Prepared By
FINANCIAL SERVICES DIVISION**

**Derrick Smith
Finance Director**

**Elizabeth Lewis
Assistant Finance Director**

**Kenneth Grant
City Treasurer**

**James Maurer
Information Systems Director**

**Kathy Coleman
Management Assistant**

Cover Photo: "Sails Ablaze" courtesy of Derrick Smith

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City of Muskegon

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Affirmative
Action
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Cemetery
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FAX (231)726-
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City Manager
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Civil Service
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4405

Clerk
(231)724-6705
FAX (231)724-
4178

Comm. &
Neigh. Services
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FAX (231)726-
2501

Finance
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FAX (231)724-
6768

Fire Department
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FAX (231)724-
6985

Income Tax
(231)724-6770
FAX (231)724-
6768

Inspection
Services
(231)724-6715
FAX (231)728-
4371

Leisure Services
(231)724-6704
FAX (231)724-
1196

Mayor's Office
(231)724-6701
FAX (231)722-
1214

Planning/Zoning
(231)724-6702
FAX (231)724-
6790

Police
Department
(231)724-6750
FAX (231)722-
5140

Public Works
(231)724-4100
FAX (231)722-
4188

Treasurer
(231)724-6720
FAX (231)724-
6768



December 5, 2016

To the Honorable Mayor, Members of the City Commission and Citizens of the City of Muskegon:

State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Brickley Delong, PC, Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Muskegon's financial statements for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

The City of Muskegon operates under a commission-manager form of government and provides a full range of traditional municipal services. Policy-making and legislative authority are vested in the governing board (Commission) consisting of the mayor and six commissioners. Two commissioners are elected at large and each of the four ward commissioners is elected by the voters of their respective wards. Commission members serve four-year terms, with the two at large members elected every four years in odd years and the four ward commissioners elected every four years in even years. The Mayor is also elected for a four-year term. The Mayor and Commission appoint the City of Muskegon's manager.



The City of Muskegon provides a full range of services, including police and fire protection; solid waste collection; parks and recreation activities; the construction and maintenance of streets and roadways; street snowplowing; traffic control; building inspections; licenses and permits; water distribution and sewer disposal services; community development; and general administrative support services. The City also provides treated water to several surrounding communities.

The Commission is required to adopt an initial budget for the fiscal year no later than the last regular meeting in June preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the City of Muskegon's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The City Manager and department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the Commission.

Local economy

The City of Muskegon is located in western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a 2010 census population of 38,401, is the largest city on the eastern shore of Lake Michigan. The City is located in Muskegon County and is part of the Muskegon-Norton Shores Metropolitan Statistical Area (MSA).

Muskegon is home to many outstanding sports, recreation and cultural activities:

- Michigan Adventure, located north of the City, is the largest amusement park complex in Michigan. The City provides water to both the amusement park and the water park located on the site.
- Muskegon is the eastern terminus for the high speed cross-lake ferry. Connecting Muskegon with Milwaukee, Wisconsin, the *Lake Express* service ferries 100,000-plus passengers each season between the two cities. 2016 marks the ferry service's thirteenth successful year of operations.
- Muskegon is home to the annual Miss Michigan pageant.
- Pere Marquette beach is nationally recognized as one of the best beaches in the nation and is the only beach in Michigan to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches.
- Muskegon is home to successful summertime festivals that attract thousands of visitors to the community. These include *Rebel Road*, which attracts motorcycle enthusiasts to the City in July, the *Unity Christian Music Festival* in August, the *Burning Foot Beer Fest* and the *Irish Fest* in September.

MUSKEGON



West Michigan's Shoreline City
www.shorelinecity.com

- Muskegon is the cultural hub for west Michigan with numerous museums and live performances. The Muskegon Museum of Art has one of the best art collections in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian age. The Fire Barn Museum takes visitors back to an 1890's Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of the Frauenthal Center for the Performing Arts to life throughout the year.
- Muskegon is home to three historic museum ships that attract thousands of visitors each year:
 - *USS Silversides*, a rare surviving World War II submarine maintained in pristine condition;
 - *LST-393*, a landing craft used in the D-day invasion and one of only two such vessels remaining in existence; and the
 - *Milwaukee Clipper*, a Great Lakes passenger ship built before the *Titanic* that for many years served as a cross-lake ferry between Muskegon and Milwaukee.

Muskegon has a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, defense, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Even though these institutions are exempt from paying property taxes, local income tax withholdings remitted by these employers provide stability to City finances.

Consumers Energy, the City's largest property taxpayer, closed its sixty-seven year-old B.C. Cobb electric generating facility in April 2016 due to age, federal pollution regulations and slowing electric demand. Although this closure will have an important impact on City revenues and municipal operations, the taxable values of the property have been tapered over the last several years to help minimize the impact on the City's finances.

The local economy has seen a reduction in the unemployment rate which stood at 4.8 percent at the end of the second quarter of 2015 compared with 5.8 percent at the end of the second quarter of 2015. According to the September 2016 Business Outlook prepared by the *W.E. Upjohn Institute for Employment Research*:

"Nonfarm employment in Muskegon increased by a modest 0.5 percent in the second quarter, driven by goods-producing employment. The unemployment rate held steady at 4.8 percent. The area's economic indicators were mixed, suggesting flat employment conditions into the next quarter."

The City fully recognizes the magnitude of financial challenges it faces due to the pending loss of its largest property tax payer. Thus, we have attempted to position ourselves to be in as strong of a position as possible considering this impending challenge by maintaining a healthy fund balance in the General Fund.



Long-term financial planning and major initiatives

Unrestricted fund balance (the total of the assigned and unassigned components of fund balance) in the general fund at year end was 30.2 percent of total general fund revenues. This amount was well above the policy guidelines set by the Commission for budgetary and planning purposes (i.e., 13% of total actual general fund revenue for the preceding year). Adequate fund balances are maintained to allow the City to continue providing services to the community in case of unexpected emergencies or requirements and/or economic downturns.

The City incorporates a five-year fiscal forecast into its yearly budget process. The forecast is a macro-level projection of major revenue sources, expenses and fund balances, taking into account identifiable factors, recent trends and management's judgment as to future developments.

The current five-year forecast is focused on the projected financial impact from the closure of the B.C Cobb electric generation facility. As noted earlier, this facility is the City's single largest taxpayer and was closed in April 2016. The City continues actively planning for the revenue loss accompany this closure and has already made numerous budget adjustments to ensure that high-quality municipal services will continue to be provided.

Among the City's major initiatives and accomplishments in fiscal year 2015-16 were the following:

- Work was completed to reconstruct both Muskegon Avenue and Webster Avenue (from Ninth Street to Spring Street). The 10-block stretch of both streets was redone to narrow and add aesthetic improvements while enhancing the ride quality of the pavement. The road was removed and replaced and water service lines were also replaced. \$3.1 million of the \$4.4 million dollar project was paid for with a grant the City received from the state;
- After several years of perseverance, an agreement was reached between various parties and deed restrictions were lifted by Sappi to allow for development on property formerly owned by Sappi. Members of Pure Muskegon LLC, a Muskegon investor group, purchased the 120-acre former Sappi site on Muskegon Lake and plan to redevelop it into residential, recreational and commercial uses;
- The City created a Downtown Business Improvement District (BID) which aids downtown businesses with marketing and promotions as well as beautification, lawn maintenance and sidewalk snow plowing in the downtown;

MUSKEGON



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www.shorelinecity.com

- Construction of Midtown Square, which consists of nine new market rate homes in the Nelson neighborhood, was completed. It is anticipated that these new homes will help to revitalize the area and increase surrounding property values. One house has been sold and the new owners have moved in while the other eight houses are actively being marketed for sale;
- Reconstruction of the county's Muskegon Area Transit System station located in downtown Muskegon was completed with the official opening of the station in August 2015;
- The City purchased the former Ameribank building in downtown Muskegon and issued a request for proposals to developers to purchase and redevelop the property for mixed-use. The City has accepted a proposal from a local developer who is finalizing plans for the project.

Relevant financial policies

The City of Muskegon has adopted a comprehensive set of financial policies used to ensure adequate protection of the City's assets from loss, theft, or misuse, and provide adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles.

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the 30th consecutive year that the City has received this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable program requirements.

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A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the skill, effort, and dedication of the Finance Division, Assistant Finance Director Elizabeth Lewis and the entire city staff. We express appreciation to those staff members who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and Commissioners for their support for maintaining the highest standards of professionalism in the management of the City of Muskegon's finances.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Frank Peterson".

Frank Peterson
City Manager

A handwritten signature in dark ink, appearing to read "Derrick Smith".

Derrick Smith
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Muskegon
Michigan**

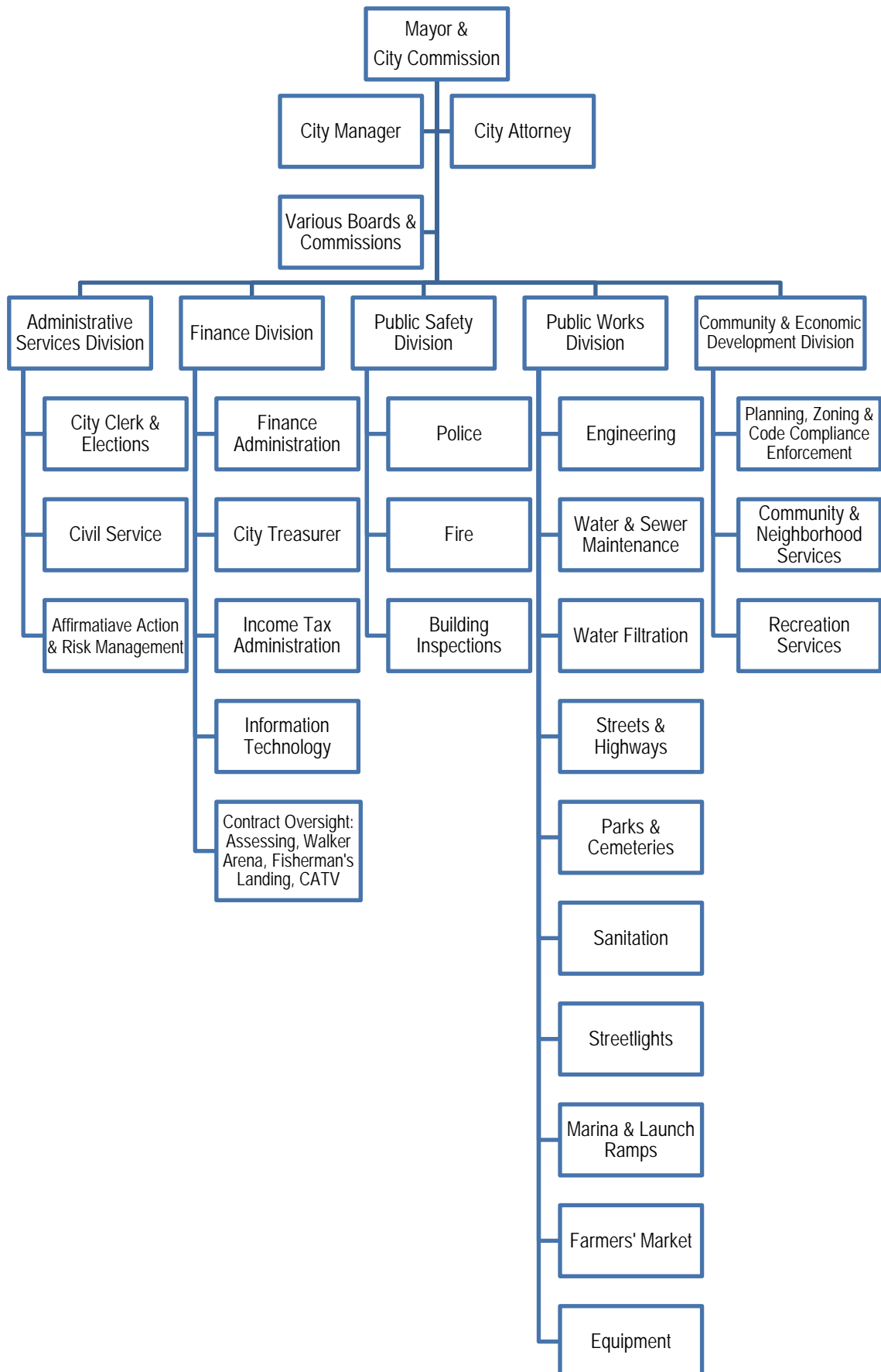
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

CITY OF MUSKEGON
Organization Chart – June 30, 2016



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF MUSKEGON, MICHIGAN
LIST OF PRINCIPAL OFFICIALS**

June 30, 2016

ELECTED OFFICIALS

Mayor. Stephen J. Gawron
At Large

Vice Mayor-Commissioner. Eric Hood
Ward 1

Commissioner. Willie German
Ward 2

Commissioner. Debra Warren
Ward 3

Commissioner. Byron Turnquist
Ward 4

Commissioner. Ken Johnson
At Large

Commissioner. Dan Rinsema-Sybenga
At Large

APPOINTED OFFICIALS

City Manager. Frank Peterson

City Attorney. John C. Schrier

Finance Director. Derrick Smith

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FINANCIAL SECTION

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 5, 2016

City Commission
City of Muskegon
Muskegon, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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City Commission
December 5, 2016
Page 2

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis budgetary comparison schedules, schedule of changes in net pension liability and related ratios, pension system schedule of contributions, and schedule of funding progress – retiree healthcare plan on pages 20 through 32 and 76 through 84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison information for nonmajor funds, schedule of indebtedness, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

City Commission
December 5, 2016
Page 3

Other Matters—Continued

Other Information—Continued

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brickley De Long, P.C.

Muskegon, Michigan

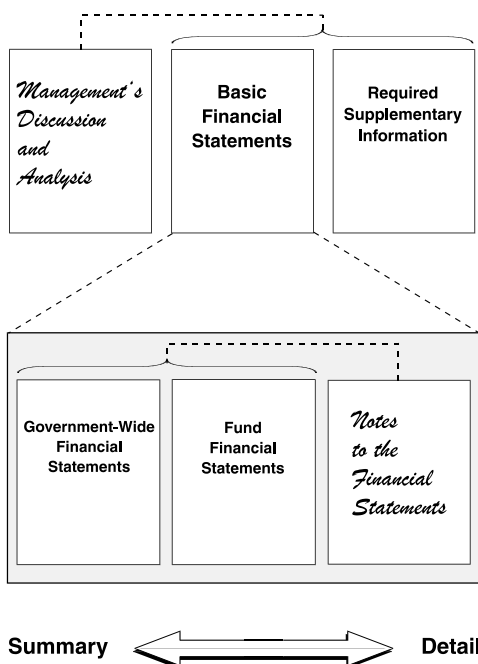
2016 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets/deferred outflows of resources of the City of Muskegon exceeded its liabilities/deferred inflows of resources by \$109,700,415 as of June 30, 2016. Of the City's total net position, \$1,620,153 (1.5%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net position decreased by \$5,367,984 during the year ended June 30, 2016.
- The City's governmental funds reported combined ending fund balance of \$13,997,959, a decrease of \$1,184,464 (7.8%) from the prior year.
- The City's General Fund reported a total fund balance of \$8,031,309, an increase of \$227,813 from the prior year balance of \$7,803,496. The favorable increase is primarily the result of conservative budgeting.

OVERVIEW OF THE FINANCIAL STATEMENTS



This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The figure above shows how the required parts of this annual report are arranged and related to one another.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets/deferred outflows of resources and liabilities/deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets/deferred outflows of resources and liabilities/deferred inflow of resources—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as public representation services, administrative services, financial services, public safety, public

works, highways, streets and bridges, community and economic development, culture and recreation, general administration, and interest on long-term debt. Income taxes, federal grants, property taxes and revenues from the State of Michigan finance most of these activities.

Also included in the government-wide statements are the City's business-type activities: water, sewer and marina operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee and are intended to be self-supporting are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina and launch ramp. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- The City uses *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes five component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA), the Local Development Finance Authority (LDFA) and, the Brownfield Redevelopment Authority (BRA 1 and BRA 2). Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The Statement of Net Position provides an overview of the City's assets/deferred outflows of resources, liabilities/deferred inflow of resources and net position. Over time this can provide a good indicator of the City's fiscal health. The total net position of the City was \$109,700,415 as of June 30, 2016. This is a decrease of \$5,367,984 from reported net position for the prior year. An overview of the City's net position follows:

City's Net Position							
(In Thousands of Dollars)							
	Governmental		Business-Type		Total		Percentage
	Activities		Activities				
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015	Change
Current and other assets	\$20,864	\$24,046	\$9,237	\$9,160	\$30,101	\$33,206	-9.35%
Capital assets	70,647	70,165	48,935	50,541	119,582	120,706	-0.93%
Deferred outflow s of resources	9,758	1,575	678	109	10,436	1,684	519.71%
Total Assets and Deferred Outflows of Resources	101,269	95,786	58,850	59,810	160,119	155,596	2.91%
Long-term liabilities	32,798	20,897	10,420	10,990	43,218	31,887	35.53%
Other liabilities	3,844	6,075	3,034	2,566	6,878	8,641	-20.40%
Deferred inflow s of resources	302	-	21	-	323	-	100.00%
Total Liabilities and Deferred Outflows of Resources	36,944	26,972	13,475	13,556	50,419	40,528	24.41%
Net Position							
Net investment in capital assets	64,327	63,515	39,014	39,231	103,341	102,746	0.58%
Restricted	4,140	4,807	599	600	4,739	5,407	-12.35%
Unrestricted	-4,142	492	5,762	6,423	1,620	6,915	-76.57%
Total Net Position	\$64,325	\$68,814	\$45,375	\$46,254	\$109,700	\$115,068	-4.67%

The bulk of the City's net position (\$103,340,420 or 94%) represents investments in capital assets net of accumulated depreciation, less the remaining balance of debt issued to acquire those assets. These infrastructure assets are used to provide public services to citizens and are not available for spending.

Another 4.3% (\$4,739,842) of the City's net position are legally restricted as to use. Unrestricted net position (\$1,620,153) represents assets that may be used to meet the

City's operating needs and ongoing obligations. The City's unrestricted net position decreased (\$5,295,301) during the year.

Effective July 1, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68 which is an accounting change that requires the recording of a net pension liability to be reported in the financial statements of state and local governmental employers. For the fiscal year ended June 30, 2016, the second year of the accounting change, the impact of GASB 68 on the City's financial statements was an additional liability of \$12,796,540 which was added to the liability of \$14,607,785 that was recorded in the prior year for a total of \$27,404,325 being recorded as a net pension liability. See Note J of the notes to the basic financial statements for additional information on the impact of this accounting change on the City's financial statements.

Changes in net position. The City's total revenues were \$51,311,883 for the year ended June 30, 2016. This represents a 6.5% increase over total revenues collected during the prior fiscal year. About 38% of the City's revenue stream came from charges to users of specific services such as water or sewer. Another 10% came from grants from the state and federal governments and 33% was from local property and income taxes. The remainder was comprised of state revenues and other sources such as franchise fees and investment income.

The total cost of all City programs and services for the year ended June 30, 2016 was \$56,679,867. This represents a 16% increase from reported expenses for the last fiscal year ended June 30, 2015. 72% of the City's expenses were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining 28% represents the costs of the City's business-type activities, specifically, water, sewer and marina operations.

The table on the following page (*Changes in City's Net Position*) further breaks down the change in total net position into period-to-period changes in individual revenue and expense categories.

As can be seen, net position for governmental activities decreased \$4,489,022 while net position for business-type activities decreased by \$878,962. For governmental activities, most of these changes are related to the increased net pension liability. For business-type activities, the changes similarly represent the impact of the increased net pension liability.

Changes in City's Net Position

(In thousands of dollars)

	Governmental		Business-Type				
	Activities		Activities		Total		Percentage
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015	Change
Program revenues							
Charges for services	\$5,217	\$4,470	\$14,078	\$12,995	\$19,295	\$17,465	10.48%
Operating grants and contributions	5,331	5,071	-	-	5,331	5,071	5.13%
Capital grants and contributions	3,805	3,497	765	475	4,570	3,972	15.06%
General revenues							
Property taxes	8,366	7,894	-	-	8,366	7,894	5.98%
Income taxes	8,387	8,478	-	-	8,387	8,478	-1.07%
State shared revenues	4,051	3,989	-	-	4,051	3,989	1.55%
All other	1,286	1,296	26	30	1,312	1,326	-1.06%
Total revenues	36,443	34,695	14,869	13,500	51,312	48,195	6.47%
Governmental activities expenses							
Public representation	1,108	940	-	-	1,108	940	17.87%
Administrative services	663	615	-	-	663	615	7.80%
Financial services	2,331	2,548	-	-	2,331	2,548	-8.52%
Public safety	17,119	14,243	-	-	17,119	14,243	20.19%
Public works	3,109	3,184	-	-	3,109	3,184	-2.36%
Highways, streets and bridges	7,252	7,166	-	-	7,252	7,166	1.20%
Community and economic development	5,223	2,712	-	-	5,223	2,712	92.59%
Culture and recreation	3,552	1,807	-	-	3,552	1,807	96.57%
General administration	327	389	-	-	327	389	-15.94%
Interest on long-term debt	248	271	-	-	248	271	-8.49%
Business-type activities expenses							
Sewer	-	-	8,669	8,461	8,669	8,461	2.46%
Water	-	-	6,751	6,047	6,751	6,047	11.64%
Marina and launch ramp	-	-	328	306	328	306	7.19%
Total expenses	40,932	33,875	15,748	14,814	56,680	48,689	16.41%
Change in net position	(4,489)	820	(879)	(1,314)	(5,368)	(494)	986.64%
Net position at beginning of year	68,814	67,994	46,254	47,568	115,068	115,562	-0.43%
Net position at end of year	\$64,325	\$68,814	\$45,375	\$46,254	\$109,700	\$115,068	-4.67%

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid specifically related to the function). The *net cost* reflects the portion of costs funded by local tax dollars and other general resources:

- The operational cost of all governmental activities during the year ended June 30, 2016 was \$40,931,740.
- The net cost that City taxpayers paid for these activities through local property taxes and income taxes was \$16,752,987, or about 41% of the total.
- The remaining cost was paid by user charges to those directly benefitting from the programs or by state and federal grants and contributions.

Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>% Change</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>% Change</u>
Governmental activities						
Public safety	\$17,119	\$14,243	20.19%	\$15,706	\$12,926	21.51%
Public works	3,109	3,184	-2.36%	2,720	2,612	4.13%
Highways, streets and bridges	7,252	7,166	1.20%	887	(79)	-1222.78%
Community and economic development	5,223	2,712	92.59%	3,421	997	243.13%
Culture and recreation	3,552	1,807	96.57%	911	1,424	-36.03%
All other	4,677	4,763	-1.81%	2,935	2,957	-0.74%
Total governmental activities	\$40,932	\$33,875	20.83%	\$26,580	\$20,837	27.56%

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina and launch ramp operations) is to operate on a self-supporting basis without making significant profit or needing general tax subsidies. For the fiscal year ended June 30, 2016, the City's total business-type activities realized an overall decrease in net position of \$878,962.

Sewer Fund net position decreased \$1,534,681 primarily as result of increased County wastewater treatment costs. The Water Fund saw a net position increase of \$792,377. This is primarily attributable to the managing costs and achieving economies of scale with the addition of Fruitport Township and the City of Norton Shores as wholesale customers. Marina and Launch Ramp Fund net position decreased \$37,974 due to the higher costs of operations.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for the fiscal year ended June 30, 2016 were the General Fund and the Major Street and Trunkline Fund.

General Fund Highlights

The General Fund receives most public attention since it is where local tax revenues are accounted for and where the most visible municipal services such as police, fire and parks are funded. The City reforecasts its General Fund budget on a quarterly basis taking into account changing economic conditions and policy priorities. The following table shows the General Fund year-end unassigned fund balance for the last five years.

Year Ended	Year-End Unassigned Fund Balance	Year-to-Year % Change	Prior Year's Revenues	Unassigned Fund Balance as a % of Prior Year Revenues (Policy Target=13%)
6/30/2016	\$6,098,977	3.67%	\$24,890,399	24.50%
6/30/2015	5,883,318	7.06%	23,960,758	24.55%
6/30/2014	5,495,145	19.10%	23,407,409	23.48%
6/30/2013	4,613,722	15.92%	24,122,760	19.13%
6/30/2012*	3,980,191	17.95%	24,027,329	16.57%

*As restated

For the year ended June 30, 2016, General Fund revenues were \$186,388 lower than the final amended budget estimate. This variance is primarily due to lower than expected local income tax revenues.

General Fund expenditures were \$1,519,509 lower than projected in the final amended budget. Most city departments spent less than expected due to a combination of 1) tight budget controls, 2) conservative budget projections and, 3) position turnover and the accompanying lag in replacement hiring time.

Major Street and Trunkline Fund Highlights

The Major Street and Trunkline Fund accounts for all of the City's street construction and maintenance activities on its primary road system. Primary funding comes from the State of Michigan. For the year ended June 30, 2016, the fund balance of the Major Street and Trunkline Fund increased \$38,978 which is attributable to a reduction in expenditures for street projects during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2016, the City had invested \$119,582,794 in a variety of capital assets, including land, streets, equipment, buildings, water and sewer lines, and vehicles. This is a decrease of \$1,122,632 from capital assets reported as of June 30, 2015. The decrease is due to normal depreciation of assets offset by current year additions. Note F of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

Long-Term Debt

At June 30, 2016, the City had \$17,753,461 in bonds and other long-term obligations outstanding. This represents an 8.0% decrease from the prior year. The City did not issue any new debt during the fiscal year.

Additional information concerning the City's long-term debt is presented in Note H to the basic financial statements.

Bond Ratings

The City's limited full faith and credit bonds (bonds guaranteed by the City's taxing powers) were upgraded by Standard & Poor's from a rating of "A+" to "AA-" in early 2016. The City's Water System revenue bonds carry the "AA-" S&P rating.

City's Long Term Debt – Bonds and Other Obligations (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Percentage
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>Change</u>
Due within one year	\$511	\$632	\$1,429	\$1,390	\$1,940	\$2,022	-4.06%
Due in more than one year	<u>7,175</u>	<u>7,239</u>	<u>8,638</u>	<u>10,041</u>	<u>15,813</u>	<u>17,280</u>	<u>-8.49%</u>
Total bonds & other obligations	\$7,686	\$7,871	\$10,067	\$11,431	\$17,753	\$19,302	-8.03%

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$4,966,420 at year-end as shown in the table below. This represents a decrease of 11.9% from the prior year.

Debt issued by component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note H to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations (In thousands of dollars)							
	Downtown Development Authority		Local Development Finance Authority		Total		Percentage
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2014</u>	<u>Change</u>
Due within one year	\$310	\$300	\$345	\$335	\$655	\$635	3.15%
Due in more than one year	<u>1,340</u>	<u>1,655</u>	<u>2,971</u>	<u>3,348</u>	<u>4,311</u>	<u>5,003</u>	<u>-13.83%</u>
Total bonds & other obligations	\$1,650	\$1,955	\$3,316	\$3,683	\$4,966	\$5,638	-11.92%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2016-17 capital budget anticipates spending \$12,041,050 for capital projects, consisting of street improvements, water and sewer system improvements, scheduled equipment replacements, improvements to the L. C. Walker Arena, the construction of additional market rate houses in a city neighborhood and the replacement of fire department rescue equipment. These improvements will be funded by anticipated grants (\$3,999,070), revenues generated from operations, contemplated debt financing (\$1,750,000), and fund balance.

From an operating standpoint, the City's 2016-17 budget will be relatively stable while the City attempts to maintain a healthy fund balance and allow time to plan for and address economic challenges with a long-term solution:

- The full-time personnel complement will be increased from 231 positions to 232 positions for a net gain of 1.
- Some user fees will be increased and new fees recommended during the course of the year.
- The City will continue to look for opportunities to partner with other entities to deliver quality services in a cost effective manner (e.g. Farmers' Market kitchen management, Marsh Field and recreation programs).

City operations depend on five major sources of revenue: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for about three-quarters of total revenues.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The income tax rate is 1% on City residents and ½ of 1% on non-residents working in the City. The income tax provides key advantages for core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services. Second, it allows the City to benefit from development occurring outside City limits because City residents employed by non-City employers pay income taxes. Finally, the income tax generates revenue from workers at not-for-profit hospitals, churches, government agencies, colleges and other institutions that are traditionally exempt from paying local property taxes. This is particularly important for Muskegon since it is the regional center for many such institutions.

Income tax revenues decreased 1.5% from \$8,274,666 for the year ended June 30, 2015 to \$8,151,902 for the year ended June 30, 2016. For 2016-17, the City has estimated income tax revenue to be \$8,850,000.

Year	City Income Tax Revenues	Percent Change
6/30/2016	\$8,151,902	-1.5%
6/30/2015	8,274,666	5.7%
6/30/2014	7,831,423	4.3%
6/30/2013	7,506,472	1.3%
6/30/2012	7,412,804	12.3%

Local Property Tax

City charter and state law authorize the City to levy a general operating millage up to 10 mills and a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy.

For 2016-17, the City tax levy will be at 10 mills for general operations and 3 mills for sanitation service. We project that \$7,092,000 in total property tax revenue will be collected during fiscal year 2016-17.

Based on recent data from the County Equalization Department, there is a decrease of about 4% in taxable values for 2016. The B.C. Cobb Plant which was placed out of service in April 2016 is a component of the property tax decline along with the state's phase out of personal property taxes.

It should be noted that several property tax appeals are currently pending. The impact of these appeals on City finances is being monitored closely.

State Shared Revenues

State shared sales tax revenues represent about 15% of total General Fund revenue. The City's state shared revenue allocation is made up of two parts. The constitutional component is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis and that cannot be reduced by the legislature. The non-constitutional component is determined by a complex formula and is subject to adjustment through the State's annual budget process. Both components depend, of course, on overall state sales tax collections. The City's recent state shared revenue history is summarized as follows:

Year	State Shared Revenues	Percent Change
6/30/2016	\$3,886,514	-0.1%
6/30/2015	3,889,178	2.0%
6/30/2014	3,813,221	3.0%
6/30/2013	3,700,971	3.4%
6/30/2012	3,577,848	-7.0%

Erosion of state shared revenues (both from economic factors and from legislative action) constitutes a major on-going concern for City finances.

For 2016-17, the City projects \$4,022,925 in state shared revenues.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets within the City. These revenues have been more stable than general state sales tax state-shared revenues have been:

Year	Street Revenues from State	Percent Change
6/30/2016	\$3,981,345	10.8%
6/30/2015	3,592,756	1.0%
6/30/2014	3,556,507	10.8%
6/30/2013	3,208,769	1.0%
6/30/2012	3,176,984	-2.4%

During the year, the state legislature considered an overhaul of the transportation funding system. Based on recent legislative changes, the City may expect to begin seeing changes that will increase street funding in future years. However, at this time, the City is not projecting any significant increase in street revenues for fiscal year 2016-17.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent one of the City's largest income streams, totaling \$13,399,400 during the year ended

June 30, 2016. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. Water rates are currently planned to remain unchanged. The City began providing treated water to the City of Norton Shores and Fruitport Charter Township in May 2015. The addition of these two new large municipal customers allows the spreading of water treatment costs over a larger customer base while remaining well within the plant's rated treatment capacity.

Due to the impact of continued increases in wastewater treatment charges from the Muskegon County Wastewater Treatment System, the City Commission passed a resolution effective July 1, 2016, which ties the sewer rate the City will charge to its customers to a multiplier of the rate that the county bills the City for wastewater treatment. This rate change is expected to help maintain the financial viability of the City's sewer system.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and investments	\$ 15,033,083	\$ 4,611,411	\$ 19,644,494	\$ 228,990
Assets managed by others	1,035,781	-	1,035,781	-
Receivables	2,145,329	2,427,460	4,572,789	-
Due from other governmental units	1,918,051	319,602	2,237,653	-
Internal balances	(1,070,842)	1,070,842	-	-
Inventories	20,857	103,997	124,854	-
Prepaid items	473,750	103,332	577,082	-
Total current assets	19,556,009	8,636,644	28,192,653	228,990
Noncurrent assets				
Restricted cash and investments	-	599,500	599,500	-
Advances to component units	1,221,119	-	1,221,119	-
Special assessments receivable, less amounts due within one year	1,804	-	1,804	-
Notes receivable, less amounts due within one year	84,837	-	84,837	-
Capital assets, net				
Nondepreciable	17,116,523	1,330,887	18,447,410	400,000
Depreciable	53,530,780	47,604,604	101,135,384	1,625,770
Total noncurrent assets	71,955,063	49,534,991	121,490,054	2,025,770
Total assets	91,511,072	58,171,635	149,682,707	2,254,760
DEFERRED OUTFLOWS OF RESOURCES				
Related to pension	9,758,362	678,389	10,436,751	-
Total assets and deferred outflows of resources	101,269,434	58,850,024	160,119,458	2,254,760
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	3,154,483	534,785	3,689,268	20,336
Due to other governmental units	26,797	1,070,051	1,096,848	-
Unearned revenues - unused Farmers Market tokens	107,310	-	107,310	-
Unearned revenues - expenditure-driven grants	44,323	-	44,323	-
Bonds and other obligations, due within one year	511,163	1,429,300	1,940,463	655,000
Total current liabilities	3,844,076	3,034,136	6,878,212	675,336
Noncurrent liabilities				
Advances from primary government	-	-	-	1,221,119
Bonds and other obligations, less amounts due within one year	7,174,720	8,638,278	15,812,998	4,311,420
Net pension liability	25,623,044	1,781,281	27,404,325	-
Total noncurrent liabilities	32,797,764	10,419,559	43,217,323	5,532,539
Total liabilities	36,641,840	13,453,695	50,095,535	6,207,875
DEFERRED INFLOWS OF RESOURCES				
Related to pension	302,480	21,028	323,508	-
Total liabilities and deferred inflows of resources	36,944,320	13,474,723	50,419,043	6,207,875
NET POSITION				
Net investment in capital assets	64,326,891	39,013,529	103,340,420	(1,290,318)
Restricted				
Highways, streets and bridges	2,146,769	-	2,146,769	-
Debt service	-	599,500	599,500	-
L.C. Walker Arena	247,028	-	247,028	-
Law enforcement	138,827	-	138,827	-
Perpetual care				
Expendable	104,603	-	104,603	-
Non-expendable	1,486,593	-	1,486,593	-
Other purposes	16,522	-	16,522	-
Unrestricted	(4,142,119)	5,762,272	1,620,153	(2,662,797)
Total net position	\$ 64,325,114	\$ 45,375,301	\$ 109,700,415	\$ (3,953,115)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
Public representation services	\$ 1,107,551	\$ 226,559	\$ -	\$ -	\$ (880,992)	\$ -	\$ (880,992)	\$ -
Administrative services	663,077	474,737	26,500	-	(161,840)	-	(161,840)	-
Financial services	2,331,236	925,474	36,000	-	(1,369,762)	-	(1,369,762)	-
Public safety	17,118,742	1,248,911	163,936	-	(15,705,895)	-	(15,705,895)	-
Public works	3,109,454	379,877	10,000	-	(2,719,577)	-	(2,719,577)	-
Highways, streets and bridges	7,251,882	234,861	3,984,222	2,146,058	(886,741)	-	(886,741)	-
Community and economic development	5,223,431	444,632	1,095,831	261,717	(3,421,251)	-	(3,421,251)	-
Culture and recreation	3,551,692	1,229,067	14,336	1,396,881	(911,408)	-	(911,408)	-
General administration	326,452	52,512	-	-	(273,940)	-	(273,940)	-
Interest on long-term debt	248,223	-	-	-	(248,223)	-	(248,223)	-
Total governmental activities	40,931,740	5,216,630	5,330,825	3,804,656	(26,579,629)	-	(26,579,629)	-
Business-type activities								
Sewer	8,669,469	6,305,554	-	765,363	-	(1,598,552)	(1,598,552)	-
Water	6,750,826	7,485,013	-	-	-	734,187	734,187	-
Marina and launch ramp	327,832	287,547	-	-	-	(40,285)	(40,285)	-
Total business-type activities	15,748,127	14,078,114	-	765,363	-	(904,650)	(904,650)	-
Total primary government	<u>\$ 56,679,867</u>	<u>\$ 19,294,744</u>	<u>\$ 5,330,825</u>	<u>\$ 4,570,019</u>	(26,579,629)	(904,650)	(27,484,279)	-
Component units								
Local Development Finance Authority - SmartZone	\$ 252,924	\$ -	\$ -	\$ 340,000	-	-	-	87,076
Downtown Development Authority	29,607	-	-	175,000	-	-	-	145,393
Tax Increment Finance Authority	36,000	-	-	-	-	-	-	(36,000)
Brownfield Redevelopment Authority I	34,696	-	-	-	-	-	-	(34,696)
Brownfield Redevelopment Authority II	142,745	-	-	-	-	-	-	(142,745)
Total component units	<u>\$ 495,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,000</u>	-	-	-	19,028
General revenues								
Property taxes					8,366,212	-	8,366,212	653,974
Income taxes					8,386,775	-	8,386,775	-
Cable franchise agreement					372,117	-	372,117	-
Grants and contributions not restricted to specific programs					4,051,050	-	4,051,050	-
Unrestricted investment earnings					189,408	25,688	215,096	1,042
Miscellaneous					626,014	-	626,014	-
Gain on sale of capital asset					99,031	-	99,031	-
Total general revenues					22,090,607	25,688	22,116,295	655,016
Change in net position					(4,489,022)	(878,962)	(5,367,984)	674,044
Net position at July 1, 2015					68,814,136	46,254,263	115,068,399	(4,627,159)
Net position at June 30, 2016					<u>\$ 64,325,114</u>	<u>\$ 45,375,301</u>	<u>\$ 109,700,415</u>	<u>\$ (3,953,115)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
June 30, 2016

	General Fund	Major Street and Trunkline Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 7,738,415	\$ 1,798,091	\$ 2,444,498	\$ 11,981,004
Assets managed by others	-	-	1,035,781	1,035,781
Receivables				
Accounts and loans (net of allowance for uncollectibles)	145,879	5,040	192,122	343,041
Property taxes	60,593	-	-	60,593
Income taxes	1,533,533	-	-	1,533,533
Special assessments	-	48,824	32,981	81,805
Due from other governmental units	768,158	607,040	542,853	1,918,051
Due from other funds	263,951	-	-	263,951
Advances to component units	-	-	407,041	407,041
Prepaid items	222,332	35,752	4,848	262,932
Total assets	\$ 10,732,861	\$ 2,494,747	\$ 4,660,124	\$ 17,887,732
LIABILITIES				
Accounts payable	\$ 1,596,897	\$ 145,306	\$ 618,396	\$ 2,360,599
Accrued liabilities	317,793	8,921	20,860	347,574
Due to other governmental units	14,552	-	-	14,552
Due to other funds	-	-	263,951	263,951
Unearned revenues - unused Farmers Market tokens	107,310	-	-	107,310
Unearned revenues - expenditure-driven grants	-	-	44,323	44,323
Total liabilities	2,036,552	154,227	947,530	3,138,309
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - income taxes	665,000	-	-	665,000
Unavailable revenues - special assessments	-	48,824	32,981	81,805
Unavailable revenues - other long-term receivables	-	-	4,659	4,659
Total deferred inflows of resources	665,000	48,824	37,640	751,464
FUND BALANCES				
Nonspendable				
Prepaid items	222,332	35,752	4,848	262,932
Long-term loans receivable	-	-	80,178	80,178
Perpetual care	10,000	-	1,476,593	1,486,593
Restricted				
Highways, streets and bridges	-	2,255,944	232,686	2,488,630
L.C. Walker Arena	-	-	247,028	247,028
Law enforcement	-	-	138,827	138,827
Perpetual care	-	-	104,603	104,603
Other purposes	-	-	16,522	16,522
Assigned for capital projects and public improvements	1,700,000	-	1,373,669	3,073,669
Unassigned	6,098,977	-	-	6,098,977
Total fund balances	8,031,309	2,291,696	3,674,954	13,997,959
Total liabilities, deferred inflows of resources and fund balances	\$ 10,732,861	\$ 2,494,747	\$ 4,660,124	\$ 17,887,732

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**
June 30, 2016

Total fund balance—governmental funds \$ 13,997,959

Amounts reported for governmental activities in the Statement of Net Position
are different because:

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

Cost of capital assets	\$ 128,455,817	
Accumulated depreciation	<u>(59,942,137)</u>	68,513,680

Other long-term assets are not available to pay for current period
expenditures and, therefore, are reported as unavailable revenues
in the governmental funds.

Income taxes	665,000	
Special assessments	81,804	
Other long-term receivables	<u>4,659</u>	751,463

Long-term liabilities in governmental activities are not due and payable in the
current period and, therefore, are not reported in the governmental funds.

Accrued interest payable	(46,651)	
Bonds and notes payable	(6,320,412)	
Compensated absences	(1,263,543)	
Net pension liability and related deferred outflows/inflows of resources	<u>(15,475,518)</u>	(23,106,124)

Internal service funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the internal service funds are reported
with governmental activities in the Statement of Net Position.

Net position of the internal service funds	5,238,978	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	<u>(1,070,842)</u>	<u>4,168,136</u>
Net position of governmental activities		<u><u>\$ 64,325,114</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2016

	General Fund	Major Street and Trunkline Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 16,178,761	\$ -	\$ -	\$ 16,178,761
Licenses and permits	1,443,144	-	-	1,443,144
Intergovernmental revenues				
Federal	72,521	239,952	1,111,421	1,423,894
State	4,042,465	5,165,137	1,044,292	10,251,894
Local	36,000	-	-	36,000
Charges for services	2,533,448	47,127	888,363	3,468,938
Fines and forfeitures	459,181	-	-	459,181
Interest and rental income	383,925	12,828	33,926	430,679
Income from assets managed by others	-	-	24,992	24,992
Other	671,669	83,086	756,207	1,510,962
Total revenues	25,821,114	5,548,130	3,859,201	35,228,445
EXPENDITURES				
Current				
Public representation services	1,064,503	-	-	1,064,503
Administrative services	577,454	-	-	577,454
Financial services	2,068,208	-	-	2,068,208
Public safety	13,456,299	-	20,258	13,476,557
Public works	2,833,029	-	31,849	2,864,878
Highways, streets and bridges	-	5,277,781	1,400,236	6,678,017
Community and economic development	1,878,328	-	-	1,878,328
Culture and recreation	1,662,570	-	1,437,768	3,100,338
Other governmental functions	305,807	-	-	305,807
Debt service				
Principal	70,000	190,000	168,199	428,199
Interest and fees	208,176	41,371	7,969	257,516
Bond issuance costs	97,578	-	-	97,578
Capital outlay	185,895	-	3,643,166	3,829,061
Total expenditures	24,407,847	5,509,152	6,709,445	36,626,444
Excess of revenues over (under) expenditures	1,413,267	38,978	(2,850,244)	(1,397,999)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	190,957	190,957
Refunding bonds issued	4,535,000	-	-	4,535,000
Premium on refunding bonds issued	368,903	-	-	368,903
Payment to refunded bond escrow agent	(4,806,325)	-	-	(4,806,325)
Transfers in	35,132	-	1,527,962	1,563,094
Transfers out	(1,318,164)	-	(319,930)	(1,638,094)
Total other financing sources (uses)	(1,185,454)	-	1,398,989	213,535
Net change in fund balances	227,813	38,978	(1,451,255)	(1,184,464)
Fund balances at July 1, 2015	7,803,496	2,252,718	5,126,209	15,182,423
Fund balances at June 30, 2016	\$ 8,031,309	\$ 2,291,696	\$ 3,674,954	\$ 13,997,959

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2016

Net change in fund balances—total governmental funds \$ (1,184,464)

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

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (4,593,912)	
Capital outlay	<u>3,867,579</u>	(726,333)

Donations of capital assets increase net position in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.		1,396,881
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Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(95,716)
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The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Issuance of long-term debt	(4,535,000)	
Premium on long-term debt issued	(368,903)	
Repayment of principal on long-term debt	<u>5,243,199</u>	339,296
Changes in accrual of interest and amortization of premiums and discounts		
Change in accrued interest payable	10,182	
Amortization of premiums and discounts	<u>(9,564)</u>	618

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences	(132,650)	
Change in net pension liability and related deferred outflows/inflows of resources	<u>(3,908,779)</u>	(4,041,429)

The internal service funds are used by management to charge the costs of certain activities used to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities.

Change in net position of the internal service funds	(276,559)	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>98,684</u>	<u>(177,875)</u>
Change in net position of governmental activities		<u>\$ (4,489,022)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET POSITION
 Proprietary Funds
 June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
ASSETS					
Current assets					
Cash and investments	\$ 1,428,302	\$ 2,780,192	\$ 402,917	\$ 4,611,411	\$ 3,052,079
Accounts receivable	1,040,325	1,358,669	28,466	2,427,460	212,998
Due from other governmental units	277,420	42,182	-	319,602	-
Inventories	17,751	86,246	-	103,997	20,857
Prepaid items	42,566	58,435	2,331	103,332	210,818
Total current assets	2,806,364	4,325,724	433,714	7,565,802	3,496,752
Noncurrent assets					
Restricted cash and investments	-	599,500	-	599,500	-
Advances to component units	-	-	-	-	814,078
Capital assets					
Land	16,188	103,500	22,562	142,250	65,000
Land improvements	-	-	1,888,965	1,888,965	301,715
Buildings, improvements and systems	21,524,875	67,795,895	2,322,488	91,643,258	1,559,334
Machinery and equipment	83,643	2,881,519	39,080	3,004,242	8,363,879
Construction in progress	-	1,188,637	-	1,188,637	-
Less accumulated depreciation	(9,763,260)	(36,256,735)	(2,911,866)	(48,931,861)	(8,156,305)
Net capital assets	11,861,446	35,712,816	1,361,229	48,935,491	2,133,623
Total noncurrent assets	11,861,446	36,312,316	1,361,229	49,534,991	2,947,701
Total assets	14,667,810	40,638,040	1,794,943	57,100,793	6,444,453
DEFERRED OUTFLOWS OF RESOURCES					
Related to pension	156,551	521,838	-	678,389	417,470
Total assets and deferred outflows of resources	14,824,361	41,159,878	1,794,943	57,779,182	6,861,923
LIABILITIES					
Current liabilities					
Accounts payable	136,244	269,371	19,274	424,889	370,767
Accrued liabilities	12,885	96,455	556	109,896	28,892
Due to other governmental units	1,070,051	-	-	1,070,051	12,244
Bonds and other obligations, due within one year	7,700	1,421,300	300	1,429,300	17,000
Total current liabilities	1,226,880	1,787,126	20,130	3,034,136	428,903
Noncurrent liabilities					
Bonds and other obligations, less amounts due within one year	38,274	8,598,287	1,717	8,638,278	84,928
Net pension liability	411,065	1,370,216	-	1,781,281	1,096,173
Total noncurrent liabilities	449,339	9,968,503	1,717	10,419,559	1,181,101
Total liabilities	1,676,219	11,755,629	21,847	13,453,695	1,610,004
DEFERRED INFLOWS OF RESOURCES					
Related to pension	4,853	16,175	-	21,028	12,941
Total liabilities and deferred inflows of resources	1,681,072	11,771,804	21,847	13,474,723	1,622,945
NET POSITION					
Net investment in capital assets	11,861,446	25,790,854	1,361,229	39,013,529	2,133,623
Restricted for debt service	-	599,500	-	599,500	-
Unrestricted	1,281,843	2,997,720	411,867	4,691,430	3,105,355
Total net position	<u>\$ 13,143,289</u>	<u>\$ 29,388,074</u>	<u>\$ 1,773,096</u>	44,304,459	<u>\$ 5,238,978</u>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time				1,070,842	
Net position of business-type activities				<u>\$ 45,375,301</u>	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Proprietary Funds
For the year ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
OPERATING REVENUES					
Charges for services	\$ 6,183,805	\$ 7,215,595	\$ 273,635	\$ 13,673,035	\$ 8,194,396
Other	121,749	269,418	13,912	405,079	66,905
Total operating revenues	6,305,554	7,485,013	287,547	14,078,114	8,261,301
OPERATING EXPENSES					
Administration	438,534	897,399	4,959	1,340,892	367,517
Insurance premiums and claims	-	-	-	-	4,416,046
Wastewater treatment	5,749,839	-	-	5,749,839	-
Wastewater maintenance	1,972,093	-	-	1,972,093	-
Filtration plant operations	-	1,731,553	-	1,731,553	-
Water distribution	-	1,831,124	-	1,831,124	-
Other operations	-	-	211,303	211,303	3,500,037
Depreciation	455,546	1,987,319	111,170	2,554,035	380,993
Total operating expenses	8,616,012	6,447,395	327,432	15,390,839	8,664,593
Operating income (loss)	(2,310,458)	1,037,618	(39,885)	(1,312,725)	(403,292)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	10,414	13,363	1,911	25,688	43,109
Gain on sale of capital assets	-	-	-	-	8,624
Interest expense	-	(258,604)	-	(258,604)	-
Total nonoperating revenue (expenses)	10,414	(245,241)	1,911	(232,916)	51,733
Income (loss) before contributions and transfers	(2,300,044)	792,377	(37,974)	(1,545,641)	(351,559)
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Capital contributions	765,363	-	-	765,363	-
Transfers in	-	-	-	-	75,000
Total capital contributions and transfers	765,363	-	-	765,363	75,000
Change in net position	(1,534,681)	792,377	(37,974)	(780,278)	(276,559)
Net position at July 1, 2015	14,677,970	28,595,697	1,811,070		5,515,537
Net position at June 30, 2016	\$ 13,143,289	\$ 29,388,074	\$ 1,773,096		\$ 5,238,978
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds				(98,684)	
Change in net position of business-type activities				\$ (878,962)	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,956,865	\$ 6,806,070	\$ 283,786	\$ 13,046,721	\$ 56,501
Receipts from interfund services provided	12,872	146,146	-	159,018	7,016,833
Other receipts	-	-	-	-	1,210,258
Payments to suppliers	(6,549,469)	(2,253,091)	(173,042)	(8,975,602)	(6,119,862)
Payments to employees	(517,936)	(1,358,685)	(22,822)	(1,899,443)	(1,302,293)
Payments for interfund services used	(498,300)	(648,665)	(23,824)	(1,170,789)	(851,912)
Net cash provided by (used for) operating activities	(1,595,968)	2,691,775	64,098	1,159,905	9,525
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	-	-	75,000
Advances to component units	-	-	-	-	76,722
Net cash provided by noncapital financing activities	-	-	-	-	151,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	765,363	-	-	765,363	-
Purchases of capital assets	(91,256)	(818,599)	(39,080)	(948,935)	(192,913)
Principal paid on capital debt	-	(1,370,000)	-	(1,370,000)	-
Interest paid on capital debt	-	(283,360)	-	(283,360)	-
Proceeds from sale of capital assets	-	-	-	-	8,624
Net cash provided by (used for) capital and related financing activities	674,107	(2,471,959)	(39,080)	(1,836,932)	(184,289)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	10,414	13,363	1,911	25,688	43,109
Net increase (decrease) in cash and investments	(911,447)	233,179	26,929	(651,339)	20,067
Cash and investments July 1, 2015	2,339,749	3,146,513	375,988	5,862,250	3,032,012
Cash and investments at June 30, 2016	\$ 1,428,302	\$ 3,379,692	\$ 402,917	\$ 5,210,911	\$ 3,052,079
Reconciliation of cash and investments to the Statement of Net Position					
Cash and investments	\$ 1,428,302	\$ 2,780,192	\$ 402,917	\$ 4,611,411	\$ 3,052,079
Restricted cash and investments	-	599,500	-	599,500	-
	\$ 1,428,302	\$ 3,379,692	\$ 402,917	\$ 5,210,911	\$ 3,052,079
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ (2,310,458)	\$ 1,037,618	\$ (39,885)	\$ (1,312,725)	\$ (403,292)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	455,546	1,987,319	111,170	2,554,035	380,993
Bad debt expense	8,969	5,981	-	14,950	-
Change in assets and liabilities					
Receivables	(344,786)	(538,778)	(3,761)	(887,325)	22,291
Inventories	19,648	28,810	-	48,458	3,303
Prepaid items	130	(1,972)	(167)	(2,009)	79,705
Accounts payable	507,390	(81,830)	(3,846)	421,714	(265,539)
Accrued liabilities	67,593	254,627	587	322,807	192,064
Net cash provided by (used for) operating activities	\$ (1,595,968)	\$ 2,691,775	\$ 64,098	\$ 1,159,905	\$ 9,525

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2016

	Agency Funds
ASSETS	
Cash and investments	\$ 913,108
Accounts receivable	10,675
Total assets	\$ 923,783
LIABILITIES	
Accounts payable	\$ 756,087
Due to other governmental units	87,995
Deposits held for others	79,701
Total liabilities	\$ 923,783

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET POSITION
Discretely Presented Component Units
June 30, 2016

	Local Development Finance Authority - SmartZone	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority I	Brownfield Redevelopment Authority II	Total
ASSETS						
Current assets						
Cash and investments	\$ 21,030	\$ 118,840	\$ 454	\$ 70,699	\$ 17,967	\$ 228,990
Noncurrent assets						
Capital assets, net						
Nondepreciable	400,000	-	-	-	-	400,000
Depreciable	1,625,770	-	-	-	-	1,625,770
Total noncurrent assets	2,025,770	-	-	-	-	2,025,770
Total assets	2,046,800	118,840	454	70,699	17,967	2,254,760
LIABILITIES						
Current liabilities						
Accrued liabilities	18,267	2,069	-	-	-	20,336
Bonds and other obligations, due within one year	345,000	310,000	-	-	-	655,000
Total current liabilities	363,267	312,069	-	-	-	675,336
Noncurrent liabilities						
Advances from primary government	-	-	-	1,221,119	-	1,221,119
Bonds and other obligations, less amounts due within one year	2,971,088	1,340,332	-	-	-	4,311,420
Total noncurrent liabilities	2,971,088	1,340,332	-	1,221,119	-	5,532,539
Total liabilities	3,334,355	1,652,401	-	1,221,119	-	6,207,875
NET POSITION						
Net investment in capital assets	(1,290,318)	-	-	-	-	(1,290,318)
Unrestricted	2,763	(1,533,561)	454	(1,150,420)	17,967	(2,662,797)
Total net position	\$ (1,287,555)	\$ (1,533,561)	\$ 454	\$ (1,150,420)	\$ 17,967	\$ (3,953,115)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2016

		Program Revenue	Net (Expense) Revenue and Changes in Net Position					
			Local Development Finance Authority - SmartZone	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority I	Brownfield Redevelopment Authority II	Total
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Capital Grants and Contributions</u>						
Local Development Finance Authority - SmartZone								
Community and economic development	\$ 172,648	\$ -	\$ (172,648)	\$ -	\$ -	\$ -	\$ -	\$ (172,648)
Interest on long-term debt	80,276	340,000	259,724	-	-	-	-	259,724
Total Local Development Finance Authority - SmartZone	252,924	340,000	87,076	-	-	-	-	87,076
Downtown Development Authority								
Interest on long-term debt	29,607	175,000	-	145,393	-	-	-	145,393
Tax Increment Finance Authority								
Community and economic development	36,000	-	-	-	(36,000)	-	-	(36,000)
Brownfield Redevelopment Authority I								
Interest on long-term debt	34,696	-	-	-	-	(34,696)	-	(34,696)
Brownfield Redevelopment Authority II								
Community and economic development	142,745	-	-	-	-	-	(142,745)	(142,745)
Total discretely presented component units	<u>\$ 495,972</u>	<u>\$ 515,000</u>	87,076	145,393	(36,000)	(34,696)	(142,745)	19,028
General revenues								
Property taxes			95,372	227,201	34,398	136,555	160,448	653,974
Unrestricted investment income			87	522	5	274	154	1,042
Total general revenues			95,459	227,723	34,403	136,829	160,602	655,016
Change in net position			182,535	373,116	(1,597)	102,133	17,857	674,044
Net position at July 1, 2015			(1,470,090)	(1,906,677)	2,051	(1,252,553)	110	(4,627,159)
Net position at June 30, 2016			<u>\$ (1,287,555)</u>	<u>\$ (1,533,561)</u>	<u>\$ 454</u>	<u>\$ (1,150,420)</u>	<u>\$ 17,967</u>	<u>\$ (3,953,115)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City is a municipal corporation governed by an elected mayor and six-member City Commission and is administered by a city manager appointed by the City Commission. The accompanying financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Blended component units, are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority (DDA). The DDA's sole purpose is the collection of property tax incremental revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The TIFA's sole purpose is the collection of property tax incremental revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance. The TIFA is presented as a governmental fund type.

Local Development Finance Authority (LDFA). The City has created three separate local development finance authority districts under the aegis of the LDFA to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park (SmartZone). Currently only the SmartZone is active. The LDFA's sole purpose is the collection of property tax incremental revenues and the construction of public facilities within the districts. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance. The LDFA districts are presented as governmental fund types.

Brownfield Redevelopment Authority (BRA). There are two separate designated areas under the aegis of the BRA – the Betten-Henry Street site and former downtown mall site. The Authority's sole purpose is the collection of property tax incremental revenues and promotion of environmental remediation (including issuance of debt) in designated brownfield areas. Members of the BRA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the BRA budget and must approve any debt issuance. The BRA areas are presented as governmental fund types.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Reporting Entity—Continued

Discretely Presented Component Units—Continued

Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.

Related Organizations

The following organizations are related to the City's financial reporting entity:

Muskegon Hospital Finance Authority. The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Mercy Health Partners Hospital which is located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of June 30, 2016, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

Muskegon Housing Commission. The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety, and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2015, the date of its latest audited financial statements is as follows:

Total assets and deferred outflows of resources	\$ 4,490,802
Total liabilities and deferred inflows of resources	(432,206)
Total net position	<u><u>\$ 4,058,596</u></u>
Total operating income	\$ 1,604,765
Total operating expenses	(2,063,265)
Total nonoperating revenues	596
Capital contributions	174,638
Change in net assets	<u><u>\$ (283,266)</u></u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the City's discretely presented component units are reported in a separate column in the government-wide financial statements.

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

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

The Major Street and Trunkline Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

The City reports the following three major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

The Marina and Launch Ramp Fund accounts for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for internal engineering services for City projects; the purchase, operation, and depreciation of all City owned equipment; the payment of insurance claims and benefits; and the operation, maintenance, and depreciation of the City's public service building to other funds of the government on a cost reimbursement basis.

The Agency Funds are used to account for employee payroll withholdings, property taxes collected by the City on behalf of other governments, and deposits made by housing rehabilitation program participants.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Income taxes, property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Only the portion of special assessments receivable within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value (generally based on quoted market prices).

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Cash and Investments—Continued

The component unit's cash and investments are maintained within the City's investment pool.

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenses when consumed rather than when purchased in the business-type activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, 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 \$10,000 and an estimated useful life in excess of two years.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the City.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Capital Assets—Continued

<u>Capital Asset Classes</u>	<u>Years</u>
Land improvements	5-25
Leasehold improvements	10-25
Buildings and improvements	25-50
Utility buildings, improvements and systems	40-100
Furniture, vehicles and equipment	5-20
Infrastructure	15-50
Shared improvements	20

Defined Benefit Plan

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has by resolution authorized the city manager to assign fund balance. The City Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has a minimum fund balance policy requiring unassigned fund balance be at least 13 percent of prior year actual revenues.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied and lien on December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2015 state taxable value for real/personal property of the City totaled approximately \$576,498,000 of which approximately \$11,689,000 was captured by the component units. The ad valorem taxes levied consisted of 10.0, 3.0 and .0869 mills for the City's general operating, sanitation and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA SmartZone, DDA, BRA I, and BRA II component units.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and special revenue funds.

The appropriated budget is prepared by fund, function and department. The City Manager and department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level for the General Fund and the total expenditure or "fund" level for all other funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended June 30, 2016, actual expenditures exceeded appropriations for:

	Final Budget	Actual
General Fund		
Public works		
Cemeteries maintenance	\$ 387,371	\$ 406,444
Community and economic development		
Planning, zoning and economic development	399,495	422,267
Edison Landing subsidy	250,000	265,000
Culture and recreation		
Parks maintenance	1,187,215	1,284,097
General and inner city recreation programs	100,500	126,580
Farmers' market and flea market	170,375	188,214
Other financing uses		
Transfers out	25,000	1,318,164
L.C. Walker Arena		
Culture and recreation	1,305,000	1,435,878

These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2016, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Months)	S&P	Percent
Money market funds	\$ 337,320	1	AAA	4.6 %
Negotiable certificates of deposit	1,513,313	47	not rated	20.7
US Agency obligations	4,919,636	221	AA+	67.4
Local units of government obligations	533,045	46	AAA	7.3
Total fair value	\$ 7,303,314			100.0 %
Portfolio weighted average maturity		162		

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Deposit and Investment Risks

Interest rate risk

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10 percent of the City's total portfolio must be in instruments maturing in 30 days.

Credit risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers' acceptances and time certificates of deposit to 25 percent each of the total portfolio. More than 5 percent of the City's investments are in various U.S. Agency obligations including Financial Home Loan Mortgage Corporation, Federal Home Loan Bank System, and Government National Mortgage Association obligations. These investments are 30 percent, 21 percent, and 6 percent, respectively, of the City's investments.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2016, \$13,793,257 of the City's bank balance of \$14,293,257 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City's investment policy sets certain credit requirements that a bank must meet for the City to deposit funds in it.

Custodial credit risk - investments

This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has a custodial credit risk policy for investments that requires that all investments that are held with a third-party for safekeeping be in the City's name.

Foreign currency risk

The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Commission action. At June 30, 2016, restricted cash and investments in the Water Fund of \$599,500 were restricted by bond ordinance.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE D—ASSETS MANAGED BY OTHERS

As allowed by MCL 123.874 and MCL 128.4, the City is permitted to place monies in community foundations.

The Funds

The City has two funds with the Community Foundation of Muskegon County (Community Foundation).

Lakeshore Trails Improvement Fund

The Lakeshore Trails Improvement Fund was established by the City primarily to be used for the general support of the bike trails which are located in the City of Muskegon. The agreement with the Community Foundation allows the use of the Fund's income in accordance with the Community Foundation's spending policy and principal in certain circumstances.

Cemetery Perpetual Care Fund

The City of Muskegon Cemetery Perpetual Care Fund was established by the City primarily to be used for the care and maintenance of the cemeteries that are operated by the City. The agreement with the Community Foundation allows the use of the Fund's income in accordance with the Community Foundation's spending policy and principal in certain circumstances.

The Community Foundation invests the contributions to the funds in various types of marketable equity and debt securities, U.S. Treasuries, commercial paper, and certificates of deposit. The majority of investments are uninsured and uncollateralized.

Reporting of the Assets of the Funds

The investments held at the Community Foundation, which were contributed by the City to the funds along with the earnings on these investments, are reported at fair value as assets of the City. The contributions to these funds made by third party donors directly to the Community Foundation have been excluded from the assets of the City.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE D—ASSETS MANAGED BY OTHERS—Continued

Summary of the Community Foundation Funds

A summary of revenues, expenses, and changes in the assets at fair value of the funds for the year ended June 30, 2016 follows:

	Lakeshore Trails Improvement Fund	Cemetery Perpetual Care Fund	Totals
Revenues			
Contributions	\$ 1,552	\$ -	\$ 1,552
Dividends and interest	734	18,283	19,017
Realized and unrealized loss on investments	443	10,666	11,109
	<u>2,729</u>	<u>28,949</u>	<u>31,678</u>
Expenses			
Administration fees	198	4,936	5,134
	<u>198</u>	<u>4,936</u>	<u>5,134</u>
Revenues over expenses	2,531	24,013	26,544
Total assets at beginning of year	<u>39,162</u>	<u>1,000,000</u>	<u>1,039,162</u>
Total assets at end of year	41,693	1,024,013	1,065,706
Less assets recorded as those of the Foundation	<u>(29,925)</u>	<u>-</u>	<u>(29,925)</u>
Assets reported on the Balance Sheet/ Statement of Net Position	<u><u>\$ 11,768</u></u>	<u><u>\$ 1,024,013</u></u>	<u><u>\$ 1,035,781</u></u>

The Board of Trustees of the Community Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The authority to modify restrictions is sometimes referred to as “variance power” and is a legal standard imposed on all community foundations.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE E—FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City the ability to access.
- Level 2 Inputs to the valuation methodology include the following:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Money market funds: Valued at amortized cost which approximates fair value.

Negotiable certificates of deposit, US agency obligations, Local units of government obligations:
Valued at the closing price reported on the active market on which the individual securities are traded.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE E—FAIR VALUE MEASUREMENTS—Continued

Assets managed by others: The assets are valued based upon the City’s allocable share of the Community Foundation of Muskegon County (Community Foundation) pooled investment portfolio. The allocable share is based on the value of the underlying assets owned by the fund, minus its liabilities.

The assets managed by others are valued monthly by the Community Foundation and are allocated based upon each organization’s calculated share of the Community Foundation’s pooled investment portfolio. Each entity with an interest within the pooled investments receives a statement from the Community Foundation indicating the additions to the investment (via contributions), withdrawals from the investment (via grants), and the investment returns allocated via a unitization process. The City calculates the fair value of its beneficial interest in the pooled investment assets held by the Community Foundation based on the estimated fair value of the underlying assets. The Community Foundation controls the investments and makes all management and investment decisions.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the City’s assets at fair value on a recurring basis as of June 30, 2016:

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 337,320	\$ -	\$ 337,320
Negotiable certificates of deposit	1,513,313	-	-	1,513,313
US Agency obligations	4,919,636	-	-	4,919,636
Local units of government obligations	533,045	-	-	533,045
Total assets at fair value	\$ 6,965,994	\$ 337,320	\$ -	\$ 7,303,314

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,179,985	\$ 73,575	\$ -	\$ 12,253,560
Construction in progress	3,986,271	3,575,626	2,698,934	4,862,963
Total capital assets, not being depreciated	16,166,256	3,649,201	2,698,934	17,116,523
Capital assets, being depreciated:				
Land improvements	4,503,686	181,431	-	4,685,117
Leasehold improvements	534,821	-	-	534,821
Buildings and improvements	22,186,477	1,245,080	-	23,431,557
Furniture, vehicle and equipment	13,897,224	381,660	119,914	14,158,970
Infrastructure	78,398,523	1,728,451	8,213,509	71,913,465
Shared improvements	5,934,809	970,484	-	6,905,293
Total capital assets, being depreciated	125,455,540	4,507,106	8,333,423	121,629,223
Less accumulated depreciation:				
Land improvements	1,453,358	159,813	-	1,613,171
Leasehold improvements	401,954	30,403	-	432,357
Buildings and improvements	15,949,073	490,618	-	16,439,691
Furniture, vehicle and equipment	10,774,665	549,997	119,914	11,204,748
Infrastructure	39,408,395	3,447,334	8,213,509	34,642,220
Shared improvements	3,469,516	296,740	-	3,766,256
Total accumulated depreciation	71,456,961	4,974,905	8,333,423	68,098,443
Total capital assets, being depreciated, net	53,998,579	(467,799)	-	53,530,780
Capital assets, net	\$ 70,164,835	\$ 3,181,402	\$ 2,698,934	\$ 70,647,303
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	463,110	909,855	184,328	1,188,637
Total capital assets, not being depreciated	605,360	909,855	184,328	1,330,887
Capital assets, being depreciated:				
Land improvements	1,888,965	-	-	1,888,965
Buildings, improvements and systems	91,497,498	145,760	-	91,643,258
Machinery and equipment	2,926,594	77,648	-	3,004,242
Total capital assets, being depreciated	96,313,057	223,408	-	96,536,465
Less accumulated depreciation:				
Land improvements	1,779,177	18,196	-	1,797,373
Buildings, improvements and systems	42,103,769	2,439,612	-	44,543,381
Machinery and equipment	2,494,880	96,227	-	2,591,107
Total accumulated depreciation	46,377,826	2,554,035	-	48,931,861
Total capital assets, being depreciated, net	49,935,231	(2,330,627)	-	47,604,604
Capital assets, net	\$ 50,540,591	\$ (1,420,772)	\$ 184,328	\$ 48,935,491

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 43,215
Financial services	33,106
Public safety	189,488
Public works	2,126
Highways, streets and bridges	3,867,856
Community and economic development	75,717
Culture and recreation	361,759
General administration	20,645
Internal Service Fund depreciation	380,993
	<u><u>\$ 4,974,905</u></u>

Business-type activities:

Sewer	\$ 455,546
Water	1,987,319
Marina and Launch Ramp	111,170
	<u><u>\$ 2,554,035</u></u>

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Component units:				
Capital assets, not being depreciated:				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Capital assets, being depreciated:				
Building and improvements	3,798,258	-	-	3,798,258
Less accumulated depreciation:				
Building and improvements	1,999,840	172,648	-	2,172,488
Total capital assets, being depreciated, net	1,798,418	(172,648)	-	1,625,770
Capital assets, net	<u><u>\$ 2,198,418</u></u>	<u><u>\$ (172,648)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,025,770</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Development Block Grant Fund	\$ 127,220
General Fund	State Grants Fund	135,949
General Fund	HOME Rehabilitation	782
		<u><u>\$ 263,951</u></u>

The outstanding balances between funds result from the payable funds having negative positions in the City's cash and investment pool.

Component Unit Advance:

The Cemetery Perpetual Care Fund, Equipment Fund, and General Insurance Fund advanced the BRA I \$1,221,119 to enable the BRA I to retire a redevelopment commitment early. The advance will be repaid with future tax captures.

Interfund Transfers:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
		Nonmajor Governmental Funds	
General Fund	\$ 35,132	Sidewalk Replacement Fund	\$ 35,132
Nonmajor Governmental Funds			
L.C. Walker Arena Fund	485,000	General Fund	1,243,164
Public Improvement Fund	750,000		
Community Development Fund	8,164		
	<u>1,243,164</u>		<u>1,243,164</u>
Nonmajor Governmental Funds		Nonmajor Governmental Funds	
Home Rehabilitation Fund	4,966	Community Development Fund	4,966
		Arena Capital	
L.C. Walker Arena Fund	279,832	Improvements Fund	279,832
	<u>284,798</u>		<u>284,798</u>
Internal Service Funds			
Engineering Services Fund	75,000	General Fund	75,000
	<u><u>\$ 1,638,094</u></u>		<u><u>\$ 1,638,094</u></u>

The General Fund transferred funds to the L.C. Walker Arena Fund and other funds for operation subsidies. Other transfers between funds were made to meet grant matching requirements or other operational needs.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Governmental activities:					
General obligation debt	\$ 6,565,000	\$ 4,535,000	\$ 5,225,000	\$ 5,875,000	\$ 265,000
Discount	(9,564)	-	(9,564)	-	-
Premium	-	368,903	-	368,903	-
Intergovernmental obligations	94,708	-	18,199	76,509	18,563
Compensated absences	1,220,308	1,562,875	1,417,712	1,365,471	227,600
Governmental activities long-term liabilities	\$ 7,870,452	\$ 6,466,778	\$ 6,651,347	\$ 7,685,883	\$ 511,163
Business-type activities:					
Revenue obligations	\$ 11,265,000	\$ -	\$ 1,370,000	\$ 9,895,000	\$ 1,405,000
Premium	44,368	-	17,406	26,962	-
Compensated absences	121,806	182,574	158,764	145,616	24,300
Business-type activities long-term liabilities	\$ 11,431,174	\$ 182,574	\$ 1,546,170	\$ 10,067,578	\$ 1,429,300
Component units:					
Intergovernmental obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	4,460,000	-	635,000	3,825,000	655,000
Premium	177,821	-	36,401	141,420	-
Component unit long- term liabilities	\$ 5,637,821	\$ -	\$ 671,401	\$ 4,966,420	\$ 655,000

General Obligation Debt

The City has issued general obligation debt to provide funds for the acquisition and construction of major capital facilities. General obligation debt is a direct obligation and pledges the full faith and credit of the City. This debt is generally issued as serial bonds with varying amounts of principal maturing each year. Certain debt issued by the City's component units is also backed by the full faith and credit of the City if there is a shortfall in tax increment revenues. General obligation debt outstanding as of June 30, 2016 is as follows:

	Original Borrowing	Interest Rate	Date of Maturity	Balance
General obligation debt:				
Governmental activities:				
2006 Limited Tax General Obligation Bonds	\$ 5,400,000	4%	October 2016	\$ 70,000
2011 Capital Improvement Bonds	2,000,000	2.98%	September 2021	1,270,000
2016 Limited Tax General Obligation Refunding Bonds	4,535,000	2% - 4%	October 2032	4,535,000
				\$ 5,875,000
Component units:				
2011 DDA Tax Increment Refunding Bonds	\$ 2,045,000	3.75% - 4%	June 2018	\$ 640,000
2012 LDFA Tax Increment Refunding Bonds	4,100,000	3% - 4%	November 2025	3,185,000
				\$ 3,825,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H—LONG-TERM DEBT—Continued

General Obligation Debt—Continued

The LDFA Tax Increment Refunding Bonds are partially guaranteed by the Community Foundation for Muskegon County. If LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfalls, up to \$75,000 annually. This commitment extends through December 31, 2016.

Intergovernmental Obligations

The City has long-term contractual obligations with other governmental entities for program purposes. Intergovernmental contractual obligations outstanding as of June 30, 2016 are as follows:

	<u>Original Borrowing</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Intergovernmental Contractual Obligations:				
Governmental activities:				
2008 State of Michigan Brownfield Redevelopment Loan	\$ 500,000	2%	March 2020	<u>\$ 76,509</u>
Component units:				
1989 DDA Promissory Note to Muskegon County	\$ 1,000,000	0%	August 2019	<u>\$ 1,000,000</u>

Revenue Obligations

The City has issued bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. Revenue obligations outstanding as of June 30, 2016 are as follows:

	<u>Original Borrowing</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Business-type activities:				
Revenue obligations:				
2004 Drinking Water State Revolving Fund	\$ 13,900,000	2.13%	October 2025	\$ 7,675,000
2010 Water Supply System Refunding Bonds	5,995,000	4% - 4.25%	May 2019	<u>2,220,000</u>
				<u>\$ 9,895,000</u>

The City has pledged future water customer revenues, net of specified operating expenses, to repay the 2004 Drinking Water State Revolving Fund Loan and 2010 Water Supply System Refunding Bonds. Proceeds from both issuances were used to make improvements to the City's water supply system. The bonds are payable solely from water customer net revenues and are payable through 2025 and 2019, respectively. Annual principal and interest payments on the bonds are expected to require less than 54 percent of net revenues through 2019 and less than 28 percent after 2019 through 2025. The total principal and interest remaining to be paid on the bonds is \$10,924,773. Principal and interest paid for the year ended June 30, 2016 and total customer net revenues were \$1,653,360 and \$3,038,300, respectively.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2016.

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H—LONG-TERM DEBT—Continued

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The City has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The City's portion of the debt on June 30, 2016 was approximately \$3,793,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

On March 9, 2016, the City issued \$4,535,000 of 2016 Limited Tax General Obligation Refunding Bonds with interest rates ranging from 2 to 4 percent. The proceeds were used to advance refund \$4,815,000 of the outstanding 2006 Limited Tax General Obligation Bonds which had interest rates ranging from 4 to 4.2 percent. The net proceeds of \$4,806,325 (including a \$368,903 premium and after payment of \$97,578 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments of the refunded bonds. As a result, the 2006 Limited Tax General Obligation Bonds are considered defeased and the liability for those bonds has been removed from long-term obligations with the exception of the October 2016 payment.

The City advance refunded the 2006 Limited Tax General Obligation Bonds to reduce its total debt service payments over 16 years by \$519,499 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$409,941.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2016 follow:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 283,563	\$ 202,818	\$ 1,405,000	\$ 246,434	\$ 655,000	\$ 129,251
2018	288,934	196,314	1,450,000	203,106	685,000	107,125
2019	294,313	188,476	1,495,000	158,259	375,000	81,100
2020	524,699	176,758	745,000	109,916	1,390,000	65,800
2021	515,000	161,107	760,000	93,925	395,000	50,100
2022-2026	1,780,000	607,802	4,040,000	218,133	1,325,000	103,600
2027-2031	1,625,000	290,500	-	-	-	-
2032-2033	640,000	25,600	-	-	-	-
	\$ 5,951,509	\$ 1,849,375	\$ 9,895,000	\$ 1,029,773	\$ 4,825,000	\$ 536,976

Annual debt service requirements to maturity by type of debt as of June 30, 2016 follow:

Year Ending June 30,	General Obligation Debt		Revenue Obligations	Intergovernmental	
	Governmental Activities	Component Units	Business-type Activities	Governmental Activities	Component Units
2017	\$ 466,288	\$ 784,251	\$ 1,651,434	\$ 20,093	\$ -
2018	465,155	792,125	1,653,106	20,093	-
2019	462,696	456,100	1,653,259	20,093	-
2020	681,364	455,800	854,916	20,093	1,000,000
2021	676,107	445,100	853,925	-	-
2022-2026	2,387,802	1,428,600	4,258,133	-	-
2027-2031	1,915,500	-	-	-	-
2032-2033	665,600	-	-	-	-
	\$ 7,720,512	\$ 4,361,976	\$ 10,924,773	\$ 80,372	\$ 1,000,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE I—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. A \$150,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2016 and 2015 were as follows:

<u>Year Ended</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
June 30, 2016	\$ 137,902	\$ (6,455)	\$ 101,747	\$ 29,700
June 30, 2015	104,900	158,000	124,998	137,902

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

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of up to \$500,000 per covered individual's lifetime. As of June 30, 2016, the claims liability including incurred but not reported claims was \$34,064. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2016 and 2015 were as follows:

<u>Year Ended</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
June 30, 2016	\$ 49,144	\$ 1,267,781	\$ 1,282,861	\$ 34,064
June 30, 2015	47,960	1,186,633	1,185,449	49,144

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE I—OTHER INFORMATION—Continued

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Commitments

The City has a contract agreement for a street project as of June 30, 2016 of approximately \$1,345,000. Approximately \$400,000 of these costs is being financed by a grant, with the remainder being paid by the Major Street and Trunkline Fund.

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2017 with the option by the tenant to renew the term of the lease for four successive periods of five years each. The City received rental income (including pro-rata utility usage) of \$44,695 for the year ended June 30, 2016. The future minimum rental income for this lease is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2017	<u>\$ 33,841</u>

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

Defined Benefit Pension Plan

Plan Description

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Benefits Provided

The City's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. Public Act 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Plan covers all full-time employees hired prior to January 2005. Beginning in January 2005, the various employee divisions began to be closed. By July 2006, all employee divisions were closed.

Benefits provided are based on the following by employee division:

		Vesting	Normal	Early	Reduced
	Multplier	Period	Retirement	Retirement	Early Retirement
			Age		
Non-Union General	2.25%	5 years	60	55/25	50/25 or 55/15
Non-Union Police	3.00%	10 years	55	53/25	50/25
Clerical	2.25%	5 years	60	55/30	50/25 or 55/15
Department of Public Works	2.25%	10 years	60	55/30	50/25 or 55/15
Police Patrol	3.00%	10 years	55	50/25	Not applicable
Police Command	3.00%	10 years	55	50/25	Not applicable
Fire	2.75%	10 years	55	53/25	50/25

Final average compensation is calculated based on 3 years.

Employees Covered by Benefit Terms

At December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	307
Inactive employees entitled to but not yet receiving benefits	29
Active employees	143
Total employees covered by MERS	<u><u>479</u></u>

Contributions

The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2016, the City had a flat-dollar employer contribution to the Plan of \$1,546,440 in lieu of a percentage of covered employee payroll, as the Plan is closed to new employees. Member contributions range from 5 percent to 6.5 percent.

Net Pension Liability

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Actuarial Assumptions

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

Inflation	2.5 percent
Salary increases	3.75 percent, in the long-term
Investment rate of return	7.75 percent, net of administrative and investment expenses

Although no specific price inflation assumptions are needed for the valuation, the 2.5 percent long-term wage inflation assumption would be consistent with a price inflation of 3-4 percent. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50 percent Male and 50 percent Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009 through 2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent for 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension	Plan	Net Pension
	Liability (a)	Fiduciary	Liability
		Position (b)	(a)-(b)
Balance at December 31, 2014	\$ 99,966,407	\$ 85,358,622	\$ 14,607,785
Changes for the year			
Service cost	1,194,909	-	1,194,909
Interest	8,034,035	-	8,034,035
Difference between expected and actual experience	(647,017)	-	(647,017)
Changes in assumptions	4,779,382	-	4,779,382
Contributions - employer	-	1,420,218	(1,420,218)
Contributions - employee	-	566,045	(566,045)
Net investment income	-	(1,237,895)	1,237,895
Administrative expenses	-	(183,599)	183,599
Benefit payments including refund of employee contributions	(6,363,249)	(6,363,249)	-
Net changes	6,998,060	(5,798,480)	12,796,540
Balance at December 31, 2015	\$ 106,964,467	\$ 79,560,142	\$ 27,404,325

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

The following presents the net pension liability of the City, calculated using the discount rate of 8.25 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25 percent) or 1-percentage-point higher (9.25 percent) than the current rate:

	1% Decrease	Current	1% Increase
	(7.25%)	Discount Rate	(9.25%)
		(8.25%)	
City's net pension liability	\$39,280,835	\$ 27,404,325	\$17,337,757

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expense.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense of \$6,120,623. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 323,508
Differences in assumptions	2,389,691	-
Net differences between projected and actual net investment income	7,067,008	-
Contributions subsequent to the measurement date*	980,052	-
Total	\$ 10,436,751	\$ 323,508

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2017.

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

Year Ending June 30,	Amount
2017	\$ 3,897,751
2018	1,831,568
2019	1,831,568
2020	1,572,304

Payables to the Pension Plan

At June 30, 2016, the City reported a payable of \$376,708 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016 and an additional contribution approved by the City Commission.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS for its full-time employees hired after the defined benefit plan was closed to new participants.

Benefit terms, including contribution requirements, for the MERS defined contribution plan are established and may be amended by the City Commission as determined by negotiated labor contracts. The City is required to contribute 3 percent to 10.5 percent of a qualified employees' annual compensation each year depending on employee group. Qualified employees are required to contribute 0 percent to 6 percent of annual compensation depending on employee group. For the year ended June 30, 2016, City and employee contributions were \$291,513 and \$156,449, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in City contributions and earnings on City contributions by 20 percent for each full year of service, leaving employees fully vested after five years of service. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the year ended June 30, 2016, forfeitures reduced the City's pension expense by \$13,120.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. Payments from the deferred compensation plan are not available to participants until termination, retirement, death, or unforeseeable emergency. Active participants are allowed to borrow from their accumulated assets for limited purposes such as family education costs, medical costs, or down payment for a new home. The City must approve program loans.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided by Internal Revenue Code Section 401(f).

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE K—OTHER POST-EMPLOYMENT BENEFITS

Retiree Healthcare Plan

Plan Description

The City has a retiree healthcare funding vehicle administered Municipal Employees Retirement System (MERS), an agent multiple-employer postemployment healthcare plan (OPEB). The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon
933 Terrace Street
Muskegon, MI 49443

Funding Policy

Plan members are not required to contribute to the Plan. The City is required to contribute the annual required contribution of the employer (ARC) at an actuarially-determined rate which varies upon employee group from 3.82 to 7.44 percent of covered wages. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The contribution requirements of plan members and the City are established and may be amended by MERS depending on the benefits program adopted by the City.

Annual OPEB Cost

For the year ended June 30, 2016, the City's OPEB cost (expense) of \$639,428 was equal to the City's ARC and actual contribution.

Trend Information

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 696,634	100 %	\$ -
June 30, 2015	659,451	100	-
June 30, 2016	639,428	100	-

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE K—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent after 10 years. Both rates include a 4 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 is 24 years.

Funded Status and Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 87 percent funded. The actuarial accrued liability for benefits was approximately \$21,102,000, and the actuarial value of assets was approximately \$18,261,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$2,841,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,005,000, and the ratio of the UAAL to the covered payroll was 28 percent.

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

Healthcare Saving Plan

The City also maintains a defined contribution Health Care Savings Plan offered by MERS. In this plan, post-employment healthcare benefits depend solely on amounts contributed to the plan plus investment earnings. Depending on employee group, the Plan covers all City employees hired after January 2009 to December 2012 in lieu of the traditional retiree healthcare plan. The authority for establishing or amending the Plan's provisions and for establishing or amending contribution requirements rests with the City Commission as determined by negotiated labor contracts. The City is required to contribute 1 or 2 percent of a qualified employees' annual compensation each year depending on employee group. Qualified employees are also required to contribute 1 or 2 percent of annual compensation. Additionally, some employees, regardless of hire date, may make voluntary contributions to the HCSP. For the year ended June 30, 2016, City and employee contributions were \$46,380 and \$197,218, respectively.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the City's 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The net OPEB liability recorded in the Statement of Net Position on July 1, 2017 will be significant.

GASB Statement 77—*Tax Abatement Disclosures* was issued by the GASB in August 2015 and will be effective for the City's 2017 fiscal year. This Statement requires the City to disclose the following information about tax abatement agreements entered into to foster economic growth or otherwise benefit the City or its citizens: a brief description of the arrangement including the taxes being abated, the gross dollars of the taxes abated during the period, and any additional commitments made by the City as part of the agreement.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2016
 (with comparative actual amounts for the year ended June 30, 2015)

	2016			2015	
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Actual
	Original	Final			
REVENUES					
Taxes					
City income taxes	\$ 7,830,000	\$ 8,650,000	\$ 8,151,902	\$ (498,098)	\$ 8,274,666
Property taxes	7,739,000	7,389,000	7,381,555	(7,445)	7,357,107
Industrial facilities taxes	95,000	95,000	99,363	4,363	104,247
Payments in lieu of taxes	543,290	543,290	545,941	2,651	94,117
Total taxes	16,207,290	16,677,290	16,178,761	(498,529)	15,830,137
Licenses and permits					
Business licenses	50,000	55,000	63,182	8,182	62,495
Liquor licenses	58,000	48,000	48,790	790	63,136
Cable TV fees	350,000	350,000	372,117	22,117	369,965
Rental property registration	170,000	170,000	152,380	(17,620)	145,777
Burial permits	82,000	82,000	81,095	(905)	83,922
Building permits	373,000	383,000	371,692	(11,308)	333,370
Electrical permits	98,000	93,000	84,912	(8,088)	88,524
Plumbing permits	41,000	41,000	34,316	(6,684)	29,269
Mechanical permits	74,000	71,000	69,070	(1,930)	67,930
Vacant building fees	95,000	150,000	165,590	15,590	117,258
Police gun registration	-	-	-	-	75
Total licenses and permits	1,391,000	1,443,000	1,443,144	144	1,361,721
Intergovernmental revenues					
Federal grants	69,862	66,729	72,521	5,792	84,296
State					
Grants	15,000	114,000	155,951	41,951	14,546
State shared revenue	4,011,659	4,011,659	3,886,514	(125,145)	3,889,178
Total intergovernmental revenues - State	4,026,659	4,125,659	4,042,465	(83,194)	3,903,724
Local	25,000	25,000	36,000	11,000	38,000

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2016
 (with comparative actual amounts for the year ended June 30, 2015)

	2016				2015
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	
	Original	Final	Actual		Actual
Charges for services					
Tax administration fees	\$ 298,800	\$ 298,800	\$ 339,353	\$ 40,553	\$ 338,718
Utility administration fees	310,000	310,000	310,000	-	250,000
Reimbursement for elections	33,000	42,182	26,702	(15,480)	14,796
Brownfield authority admin fee	120,000	120,000	153,000	33,000	121,925
Indirect cost reimbursements	1,025,618	1,025,618	1,025,618	-	958,040
Site plan review fee	2,000	2,000	8,300	6,300	4,600
Sale of cemetery lots	21,000	21,000	25,987	4,987	21,108
Police miscellaneous	110,000	142,900	142,854	(46)	127,981
Police impound fees	38,500	37,500	34,005	(3,495)	43,850
Fire protection-state property	81,000	80,000	81,249	1,249	80,227
Zoning fees	12,000	13,000	12,962	(38)	11,680
Muskegon Heights zoning	3,000	3,000	11,095	8,095	4,900
Clerk fees	2,800	17,000	16,789	(211)	4,219
Clerk fees - passport fees	8,000	25,000	27,199	2,199	12,025
Tax abatement application fees	3,000	3,000	600	(2,400)	3,822
Treasurer fees	92,000	92,000	69,743	(22,257)	54,289
False alarm fees	10,500	10,500	6,435	(4,065)	10,020
Miscellaneous cemetery income	15,000	15,000	17,128	2,128	15,462
Fire miscellaneous	7,300	9,300	11,413	2,113	8,610
Sanitation stickers	71,100	75,100	82,840	7,740	80,521
Lot cleanup fees	60,000	58,000	84,143	26,143	80,019
Reimbursements - lot mowing and demolitions	7,000	7,000	9,728	2,728	18,185
Special events reimbursements	25,000	25,000	30,877	5,877	69,791
Recreation program fees	3,500	3,500	5,201	1,701	4,844
Other charges for services	-	-	227	227	-
Total charges for services	2,360,118	2,436,400	2,533,448	97,048	2,339,632
Fines and forfeitures					
Income tax - penalty and interest	170,000	170,000	204,792	34,792	198,995
Late fees on current taxes	25,000	25,000	35,081	10,081	14,570
Interest on late invoices	2,000	2,000	4,252	2,252	3,769
Parking fines	90,000	75,000	73,390	(1,610)	98,052
Court fines	100,000	105,000	129,764	24,764	126,913
Civil infractions	15,000	9,900	11,902	2,002	9,000
Total fines and forfeitures	402,000	386,900	459,181	72,281	451,299
Interest and rental income					
Interest income	12,000	12,000	92,890	80,890	19,477
Net increase (decrease) in the fair value of investments	-	-	(7,428)	(7,428)	(12,892)
Flea market	26,000	26,000	25,580	(420)	27,352
Farmers' market	60,300	60,300	74,754	14,454	77,197
City right of way rental	6,800	6,800	6,800	-	6,800
Fire station lease - Central Dispatch	45,000	45,000	44,695	(305)	46,666
Great Lakes Naval Memorial lease	15,000	15,000	7,500	(7,500)	15,000
McGraft park rentals	45,000	45,000	76,761	31,761	51,051
Other park rentals	45,000	45,000	62,373	17,373	55,540
Total interest and rental income	255,100	255,100	383,925	128,825	286,191

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2016
 (with comparative actual amounts for the year ended June 30, 2015)

	2016				2015
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	
	Original	Final	Actual		Actual
Other					
Sale of land and assets	\$ -	\$ -	\$ 100	\$ 100	\$ -
Police sale and auction proceeds	2,000	2,000	832	(1,168)	1,676
CDBG program reimbursements	453,124	368,124	422,840	54,716	352,332
Fisherman's Landing reimbursement	13,500	11,300	11,320	20	13,951
Contributions	117,000	117,000	111,650	(5,350)	119,400
Contributions - Veteran's Park maintenance	16,500	18,500	18,504	4	19,081
Community Foundation for Muskegon County	10,000	22,000	32,096	10,096	17,969
Miscellaneous and sundry	51,000	52,500	74,327	21,827	70,990
Total other	663,124	591,424	671,669	80,245	595,399
Total revenues	25,400,153	26,007,502	25,821,114	(186,388)	24,890,399
EXPENDITURES					
Current					
Public representation services					
City commission	100,270	100,270	95,107	5,163	72,039
City promotions and public relations	29,900	58,900	63,880	(4,980)	40,059
City manager	270,739	284,339	279,956	4,383	232,984
Contributions to outside agencies	271,260	280,260	273,572	6,688	270,749
City attorney	357,410	357,410	351,988	5,422	314,957
Total public representation services	1,029,579	1,081,179	1,064,503	16,676	930,788
Administrative services					
City clerk	385,113	385,113	365,993	19,120	378,948
Civil service	90,300	118,300	117,219	1,081	97,499
Affirmative action	89,735	97,865	94,242	3,623	77,883
Total administrative services	565,148	601,278	577,454	23,824	554,330
Financial services					
Finance administration	416,592	444,222	445,076	(854)	410,688
Assessing	303,500	303,500	294,656	8,844	298,290
Arena administration	239,600	239,600	944	238,656	373,613
Income tax administration	321,937	321,937	309,817	12,120	315,390
Information systems	426,217	492,776	459,375	33,401	414,218
City treasurer	583,279	583,279	558,340	24,939	557,627
Total financial services	2,291,125	2,385,314	2,068,208	317,106	2,369,826
Public safety					
Police department	9,600,286	9,621,886	8,980,698	641,188	8,942,447
Fire department	3,924,370	4,079,932	3,996,694	83,238	3,886,325
Fire safety inspections	485,000	485,000	478,907	6,093	454,852
Total public safety	14,009,656	14,186,818	13,456,299	730,519	13,283,624

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2016
 (with comparative actual amounts for the year ended June 30, 2015)

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Actual
	Original	Final			
Public works					
Street lighting	\$ 710,000	\$ 642,900	\$ 566,743	\$ 76,157	\$ 623,463
Community event support	25,775	25,775	19,424	6,351	24,335
General sanitation	1,666,103	1,666,103	1,605,393	60,710	1,590,080
Storm water management	10,000	10,000	13,755	(3,755)	13,365
City hall maintenance	284,098	284,098	221,270	62,828	226,704
Cemeteries maintenance	387,371	387,371	406,444	(19,073)	398,629
Total public works	3,083,347	3,016,247	2,833,029	183,218	2,876,576
Community and economic development					
Planning, zoning and economic development	368,507	399,495	422,267	(22,772)	373,658
Environmental services	980,349	1,124,659	1,016,061	108,598	1,000,167
Edison Landing subsidy	250,000	250,000	265,000	(15,000)	227,000
Downtown Development Authority subsidy	175,000	175,000	175,000	-	70,000
Total community and economic development	1,773,856	1,949,154	1,878,328	70,826	1,670,825
Culture and recreation					
Parks maintenance	1,187,215	1,187,215	1,284,097	(96,882)	1,007,912
McGraft park maintenance	48,089	61,950	56,969	4,981	43,975
General and inner city recreation programs	100,500	100,500	126,580	(26,080)	97,212
Forestry	-	-	-	-	26
Graffiti removal	9,026	9,026	1,101	7,925	3,794
Parking operations	5,882	6,300	5,609	691	12,612
Farmers' market and flea market	145,775	170,375	188,214	(17,839)	147,185
Total culture and recreation	1,496,487	1,535,366	1,662,570	(127,204)	1,312,716
Other governmental functions					
Insurance premiums	256,811	287,000	261,419	25,581	289,370
Other	200,000	200,000	44,388	155,612	80,038
Total other governmental functions	456,811	487,000	305,807	181,193	369,408
Debt service					
Principal	70,000	70,000	70,000	-	70,000
Interest and fees	201,000	209,000	208,176	824	211,935
Bond issuance costs	-	98,000	97,578	422	-
Total debt service	271,000	377,000	375,754	1,246	281,935
Capital outlay	133,000	308,000	185,895	122,105	75,298
Total expenditures	25,110,009	25,927,356	24,407,847	1,519,509	23,725,326
Excess of revenues over (under) expenditures	290,144	80,146	1,413,267	1,333,121	1,165,073

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
General Fund
For the year ended June 30, 2016
(with comparative actual amounts for the year ended June 30, 2015)

	2016			2015	
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Actual
	Original	Final			
OTHER FINANCING SOURCES (USES)					
Refunding bonds issued	\$ -	\$ 4,535,000	\$ 4,535,000	\$ -	\$ -
Premium on refunding bonds issued	-	369,000	368,903	(97)	-
Payment to refunded bond escrow agent	-	(4,806,000)	(4,806,325)	(325)	-
Transfers in	-	-	35,132	35,132	31,349
Transfers out	(208,046)	(25,000)	(1,318,164)	(1,293,164)	(889,023)
Total other financing sources (uses)	(208,046)	73,000	(1,185,454)	(1,258,454)	(857,674)
Net change in fund balance	\$ 82,098	\$ 153,146	227,813	\$ 74,667	307,399
Fund balance at beginning of year			7,803,496		7,496,097
Fund balance at end of year			\$ 8,031,309		\$ 7,803,496

Note: Both budgets and actual figures are prepared in accordance with generally accepted accounting principles.

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Major Street and Trunkline Fund
For the year ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal	\$ 240,000	\$ 240,000	\$ 239,952	\$ (48)
State	3,597,844	5,094,344	5,165,137	70,793
Charges for services	-	-	47,127	47,127
Investment earnings	9,100	9,100	12,828	3,728
Other	90,000	89,777	83,086	(6,691)
Total revenues	3,936,944	5,433,221	5,548,130	114,909
EXPENDITURES				
Current				
Highways, streets and bridges	6,446,668	5,839,668	5,277,781	561,887
Debt service				
Principal	190,000	190,000	190,000	-
Interest and fees	41,000	41,000	41,371	(371)
Total expenditures	6,677,668	6,070,668	5,509,152	561,516
Net change in fund balance	\$ (2,740,724)	\$ (637,447)	38,978	\$ 676,425
Fund balance at July 1, 2015			2,252,718	
Fund balance at June 30, 2016			\$ 2,291,696	

Note: Both budgets and actual figures are prepared in accordance with generally accepted accounting principles.

City of Muskegon
Required Supplemental Information
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	2015	2014
TOTAL PENSION LIABILITY		
Service cost	\$ 1,194,909	\$ 1,190,507
Interest	8,034,035	7,817,503
Differences between expected and actual experience	(647,017)	-
Changes in assumptions	4,779,382	-
Benefit payments, including refunds of employee contributions	(6,363,249)	(6,407,932)
Net change in total pension liability	6,998,060	2,600,078
Total pension liability at beginning of year	99,966,407	97,366,329
Total pension liability at end of year (a)	\$ 106,964,467	\$ 99,966,407
PLAN FIDUCIARY NET POSITION		
Contributions-employer	\$ 1,420,218	\$ 1,166,652
Contributions-employee	566,045	564,409
Net investment income	(1,237,895)	5,282,031
Benefit payments, including refunds or employee contributions	(183,599)	(6,407,932)
Administrative expense	(6,363,249)	(193,139)
Net change in plan fiduciary net position	(5,798,480)	412,021
Plan fiduciary net position at beginning of year	85,358,622	84,946,601
Plan fiduciary net position at end of year (b)	\$ 79,560,142	\$ 85,358,622
City's net pension liability at end of year (a)-(b)	\$ 27,404,325	\$ 14,607,785
Plan fiduciary net position as a percentage of the total pension liability	74.38%	85.39%
Covered employee payroll	\$ 9,108,948	\$ 9,171,511
City's net pension liability as a percentage of covered employee payroll	300.85%	159.27%

Notes to Schedule

Additional actuarial data is not available and will be provided in subsequent years.

City of Muskegon
Required Supplemental Information
PENSION SYSTEM SCHEDULE OF CONTRIBUTIONS
Last Ten Fiscal Years

	Year Ended June 30						Period Ended June 30	Year Ended December 31		
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,546,440	\$ 1,293,996	\$ 1,043,040	\$ 1,035,772	\$ 1,160,870	\$ 1,211,612	\$ 688,832	\$ 801,898	\$ 1,067,853	\$ 819,258
Contributions in relation to the actuarially determined contribution	1,753,272	1,293,996	1,543,040	1,035,772	1,160,870	2,211,612	688,832	801,898	1,067,853	819,258
Contribution deficiency (excess)	\$ (206,832)	\$ -	\$ (500,000)	\$ -	\$ -	\$ (1,000,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,108,948	\$ 9,171,511	\$ 9,198,938	\$ 10,185,425	\$ 10,650,990	\$ 11,533,186	\$ 12,613,654	\$ 13,107,179	\$ 12,684,083	\$ 12,684,000
Contributions as percentage of covered employee payroll	19.2%	14.1%	16.8%	10.2%	10.9%	19.2%	5.5%	6.1%	8.4%	6.5%

Notes to Schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent, net of investment and administrative expenses
Retirement age	Varies depending on plan adoption
Mortality	50 percent Female/50 percent Male RP-2014 Group Annuity Mortality Table

City of Muskegon
Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS – RETIREE HEALTHCARE PLAN
For the year ended June 30, 2016

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$ 13,260	\$ 24,024	\$ 10,764	55 %	\$ 13,293	81 %
12/31/11	15,331	20,168	4,837	76	12,365	39
12/31/13	18,261	21,102	2,841	87	10,005	28

Actuarial data for 12/31/15 is not available and will be provided in subsequent years.

OTHER SUPPLEMENTAL INFORMATION

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Local Street – to account for gas and weight allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

L.C. Walker Arena – to account for revenues received for the operation and maintenance of L.C.Walker Arena.

Criminal Forfeitures – to account for receipts generated through the sale of assets seized through criminal court proceedings.

Downtown BID – to account for the collection of special assessment revenue in the downtown to be used for improvement and maintenance of downtown public infrastructure.

Tree Replacement – to account for contributions and other revenues earmarked for tree replacement throughout the City.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital assets other than those financed by proprietary funds and trust funds.

Public Improvement – to account for grants, private contributions, sale of property and other resources used to finance various capital projects.

Sidewalk Replacement – to account for resources allocated for a multi-year city-wide sidewalk replacement program.

Michcon Remediation – to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

EDC Revolving Loan – to account for funds received upon repayment of Urban Development Action Grant loans and subsequently reloaned to small business enterprises.

Community Development Block Grant – to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

**DESCRIPTION OF
OTHER GOVERNMENTAL FUNDS—CONTINUED**

Capital Projects Funds—Continued

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

Arena Capital Improvements – to account for ticket revenue collections earmarked for large capital improvements and repairs to the L.C. Walker Arena.

Economic Development - Sappi – to account for funds contributed to the City for economic redevelopment of vacated industrial property sites.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the General Fund to partially cover cemetery care expenses.

City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2016

	Total Other Governmental Funds	Other Special Revenue Funds	Other Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
ASSETS				
Cash and investments	\$ 2,444,498	\$ 903,768	\$ 1,393,552	\$ 147,178
Assets managed by others	1,035,781	-	11,768	1,024,013
Receivables				
Accounts and loans (net of allowance for uncollectibles)	192,122	7,592	181,566	2,964
Special assessments	32,981	32,981	-	-
Due from other governmental units	542,853	280,856	261,997	-
Advances to component units	407,041	-	-	407,041
Prepaid items	4,848	4,848	-	-
Total assets	\$ 4,660,124	\$ 1,230,045	\$ 1,848,883	\$ 1,581,196
LIABILITIES				
Accounts payable	\$ 618,396	\$ 543,930	\$ 74,466	\$ -
Accrued liabilities	20,860	11,920	8,940	-
Due to other funds	263,951	-	263,951	-
Unearned revenues - expenditure-driven grants	44,323	1,303	43,020	-
Total liabilities	947,530	557,153	390,377	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - special assessments	32,981	32,981	-	-
Unavailable revenues - other long-term receivables	4,659	-	4,659	-
Total deferred inflows of resources	37,640	32,981	4,659	-
FUND BALANCES				
Nonspendable				
Prepaid items	4,848	4,848	-	-
Long-term loans receivable	80,178	-	80,178	-
Perpetual care	1,476,593	-	-	1,476,593
Restricted				
Highways, streets and bridges	232,686	232,686	-	-
L.C. Walker Arena	247,028	247,028	-	-
Law enforcement	138,827	138,827	-	-
Perpetual care	104,603	-	-	104,603
Other purposes	16,522	16,522	-	-
Assigned for capital projects and public improvements	1,373,669	-	1,373,669	-
Total fund balances	3,674,954	639,911	1,453,847	1,581,196
Total liabilities, deferred inflows of resources and fund balances	\$ 4,660,124	\$ 1,230,045	\$ 1,848,883	\$ 1,581,196

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2016

	Total Other Governmental Funds	Other Special Revenue Funds	Other Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 1,111,421	\$ -	\$ 1,111,421	\$ -
State	1,044,292	879,502	164,790	-
Charges for services	888,363	856,876	5,500	25,987
Investment earnings	33,926	8,674	10,608	14,644
Income from assets managed by others	24,992	-	979	24,013
Other	756,207	147,465	608,742	-
Total revenues	3,859,201	1,892,517	1,902,040	64,644
EXPENDITURES				
Current				
Public safety	20,258	20,258	-	-
Public works	31,849	31,849	-	-
Highways, streets and bridges	1,400,236	1,400,236	-	-
Culture and recreation	1,437,768	1,437,768	-	-
Debt service				
Principal	168,199	-	168,199	-
Interest and fees	7,969	-	7,969	-
Capital outlay	3,643,166	-	3,643,166	-
Total expenditures	6,709,445	2,890,111	3,819,334	-
Excess of revenues over (under) expenditures	(2,850,244)	(997,594)	(1,917,294)	64,644
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	190,957	6,313	184,644	-
Transfers in	1,527,962	764,832	763,130	-
Transfers out	(319,930)	-	(319,930)	-
Total other financing sources (uses)	1,398,989	771,145	627,844	-
Net change in fund balances	(1,451,255)	(226,449)	(1,289,450)	64,644
Fund balances at July 1, 2015	5,126,209	866,360	2,743,297	1,516,552
Fund balances at June 30, 2016	\$ 3,674,954	\$ 639,911	\$ 1,453,847	\$ 1,581,196

City of Muskegon
COMBINING BALANCE SHEET
Other Special Revenue Funds
June 30, 2016

	Total Other Special Revenue Funds	Local Street	L.C. Walker Arena	Criminal Forfeitures	Downtown BID	Tree Replacement
ASSETS						
Cash and investments	\$ 903,768	\$ 438,671	\$ 304,699	\$ 138,827	\$ 19,151	\$ 2,420
Receivables						
Accounts	7,592	7,592	-	-	-	-
Special assessments	32,981	32,981	-	-	-	-
Due from other governmental units	280,856	280,856	-	-	-	-
Prepaid items	4,848	4,848	-	-	-	-
Total assets	\$ 1,230,045	\$ 764,948	\$ 304,699	\$ 138,827	\$ 19,151	\$ 2,420
LIABILITIES						
Accounts payable	\$ 543,930	\$ 482,513	\$ 57,671	\$ -	\$ 3,700	\$ 46
Accrued liabilities	11,920	11,920	-	-	-	-
Unearned revenues - expenditure-driven grants	1,303	-	-	-	-	1,303
Total liabilities	557,153	494,433	57,671	-	3,700	1,349
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - special assessments	32,981	32,981	-	-	-	-
FUND BALANCES						
Nonspendable - prepaid items	4,848	4,848	-	-	-	-
Restricted						
Highways, streets and bridges	232,686	232,686	-	-	-	-
L.C. Walker Arena	247,028	-	247,028	-	-	-
Law enforcement	138,827	-	-	138,827	-	-
Other purposes	16,522	-	-	-	15,451	1,071
Total fund balances	639,911	237,534	247,028	138,827	15,451	1,071
Total liabilities, deferred inflows of resources and fund balances	\$ 1,230,045	\$ 764,948	\$ 304,699	\$ 138,827	\$ 19,151	\$ 2,420

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Special Revenue Funds
 For the year ended June 30, 2016

	Total Other Special Revenue Funds	Local Street	L.C. Walker Arena	Criminal Forfeitures	Downtown BID	Tree Replacement
REVENUES						
Intergovernmental revenues - State	\$ 879,502	\$ 877,912	\$ -	\$ -	\$ -	\$ 1,590
Charges for services	856,876	16,362	840,514	-	-	-
Investment earnings	8,674	7,365	529	764	7	9
Other	147,465	29,454	70,718	-	47,293	-
Total revenues	1,892,517	931,093	911,761	764	47,300	1,599
EXPENDITURES						
Current						
Public safety	20,258	-	-	20,258	-	-
Public works	31,849	-	-	-	31,849	-
Highways, streets and bridges	1,400,236	1,400,236	-	-	-	-
Culture and recreation	1,437,768	-	1,435,878	-	-	1,890
Total expenditures	2,890,111	1,400,236	1,435,878	20,258	31,849	1,890
Excess of revenues over (under) expenditures	(997,594)	(469,143)	(524,117)	(19,494)	15,451	(291)
OTHER FINANCING SOURCES						
Proceeds from sale of capital assets	6,313	-	6,313	-	-	-
Transfers in	764,832	-	764,832	-	-	-
Total other financing sources	771,145	-	771,145	-	-	-
Net change in fund balances	(226,449)	(469,143)	247,028	(19,494)	15,451	(291)
Fund balances at July 1, 2015	866,360	706,677	-	158,321	-	1,362
Fund balances at June 30, 2016	\$ 639,911	\$ 237,534	\$ 247,028	\$ 138,827	\$ 15,451	\$ 1,071

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Other Special Revenue Funds
For the year ended June 30, 2016

	Local Street			L.C. Walker Arena		
	Final Budget	Actual	Variance - Positive (Negative)	Final Budget	Actual	Variance - Positive (Negative)
REVENUES						
Intergovernmental revenues - State	\$ 797,838	\$ 877,912	\$ 80,074	\$ -	\$ -	\$ -
Charges for services	-	16,362	16,362	795,700	840,514	44,814
Investment earnings	2,900	7,365	4,465	-	529	529
Other	47,000	29,454	(17,546)	-	70,718	70,718
Total revenues	847,738	931,093	83,355	795,700	911,761	116,061
EXPENDITURES						
Current						
Highways, streets and bridges	1,486,843	1,400,236	86,607	-	-	-
Culture and recreation	-	-	-	1,305,000	1,435,878	(130,878)
Total expenditures	1,486,843	1,400,236	86,607	1,305,000	1,435,878	(130,878)
Excess of revenues over (under) expenditures	(639,105)	(469,143)	169,962	(509,300)	(524,117)	(14,817)
OTHER FINANCING SOURCES						
Proceeds from sale of capital assets	-	-	-	-	6,313	6,313
Transfers in	-	-	-	235,000	764,832	529,832
Total other financing sources	-	-	-	235,000	771,145	536,145
Net change in fund balances	<u><u>\$ (639,105)</u></u>	(469,143)	<u><u>\$ 169,962</u></u>	<u><u>\$ (274,300)</u></u>	247,028	<u><u>\$ 521,328</u></u>
Fund balances at July 1, 2015		<u>706,677</u>			<u>-</u>	
Fund balances at June 30, 2016		<u><u>\$ 237,534</u></u>			<u><u>\$ 247,028</u></u>	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
Other Special Revenue Funds
For the year ended June 30, 2016

	Criminal Forfeitures			Downtown BID		
	Final budget	Actual	Variance - Positive (Negative)	Final Budget	Actual	Variance - Positive (Negative)
REVENUES						
Fines and forfeitures	\$ 16,000	\$ -	\$ (16,000)	\$ -	\$ -	\$ -
Investment earnings	700	764	64	-	7	7
Other	-	-	-	64,234	47,293	(16,941)
Total revenues	16,700	764	(15,936)	64,234	47,300	(16,934)
EXPENDITURES						
Current						
Public safety	21,000	20,258	742	-	-	-
Public works	-	-	-	64,234	31,849	32,385
Total expenditures	21,000	20,258	742	64,234	31,849	32,385
Net change in fund balances	<u>\$ (4,300)</u>	(19,494)	<u>\$ (15,194)</u>	<u>\$ -</u>	15,451	<u>\$ 15,451</u>
Fund balance at July 1, 2015		<u>158,321</u>			<u>-</u>	
Fund balance at June 30, 2016		<u>\$ 138,827</u>			<u>\$ 15,451</u>	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 Other Special Revenue Funds
 For the year ended June 30, 2016

	Tree Replacement		
	Final Budget	Actual	Variance - Positive (Negative)
REVENUES			
Intergovernmental revenues - State	\$ 2,900	\$ 1,590	\$ (1,310)
Investment earnings	5	9	4
Total revenues	2,905	1,599	(1,306)
EXPENDITURES			
Current			
Culture and recreation	2,500	1,890	610
Net change in fund balances	<u><u>\$ 405</u></u>	(291)	<u><u>\$ (696)</u></u>
Fund balance at July 1, 2015		<u>1,362</u>	
Fund balance at June 30, 2016		<u><u>\$ 1,071</u></u>	

City of Muskegon
COMBINING BALANCE SHEET
Other Capital Projects Funds
June 30, 2016

	Total Other Capital Projects Funds	Public Improvement	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Economic Development - Sappi
ASSETS										
Cash and investments	\$ 1,393,552	\$ 333,395	\$ -	\$ 221,931	\$ 323,543	\$ -	\$ -	\$ -	\$ -	\$ 514,683
Assets managed by others	11,768	11,768	-	-	-	-	-	-	-	-
Receivables										
Accounts and loans (net of allowance for uncollectibles)	181,566	5,559	-	-	28,735	85,129	51,443	10,700	-	-
Due from other governmental units	261,997	-	-	-	-	50,991	206,731	4,275	-	-
Total assets	\$ 1,848,883	\$ 350,722	\$ -	\$ 221,931	\$ 352,278	\$ 136,120	\$ 258,174	\$ 14,975	\$ -	\$ 514,683
LIABILITIES										
Accounts payable	\$ 74,466	\$ 51,347	\$ -	\$ -	\$ -	\$ 709	\$ 8,712	\$ 13,698	\$ -	\$ -
Accrued liabilities	8,940	317	-	-	-	8,191	-	432	-	-
Due to other funds	263,951	-	-	-	-	127,220	135,949	782	-	-
Unearned revenues - expenditure-driven grants	43,020	-	-	-	-	-	43,020	-	-	-
Total liabilities	390,377	51,664	-	-	-	136,120	187,681	14,912	-	-
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenues - other long-term receivables	4,659	4,659	-	-	-	-	-	-	-	-
FUND BALANCES										
Nonspendable - long-term loans receivable	80,178	-	-	-	28,735	-	51,443	-	-	-
Assigned for capital projects and public improvements	1,373,669	294,399	-	221,931	323,543	-	19,050	63	-	514,683
Total fund balances	1,453,847	294,399	-	221,931	352,278	-	70,493	63	-	514,683
Total liabilities, deferred inflows of resources and fund balances	\$ 1,848,883	\$ 350,722	\$ -	\$ 221,931	\$ 352,278	\$ 136,120	\$ 258,174	\$ 14,975	\$ -	\$ 514,683

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Capital Projects Funds
For the year ended June 30, 2016

	Total Other Capital Projects Funds	Public Improvement	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Economic Development - Sappi
REVENUES										
Intergovernmental revenues										
Federal	\$ 1,111,421	\$ -	\$ -	\$ -	\$ -	\$ 825,063	\$ 32,733	\$ 253,625	\$ -	\$ -
State	164,790	-	-	-	-	-	164,790	-	-	-
Charges for services	5,500	-	-	-	5,500	-	-	-	-	-
Investment earnings	10,608	4,146	889	1,105	1,560	762	1,228	-	-	918
Income from assets managed by others	979	979	-	-	-	-	-	-	-	-
Other	608,742	510,736	-	-	64,194	33,812	-	-	-	-
Total revenues	1,902,040	515,861	889	1,105	71,254	859,637	198,751	253,625	-	918
EXPENDITURES										
Debt service										
Principal	168,199	-	150,000	-	-	-	18,199	-	-	-
Interest and fees	7,969	-	6,075	-	-	-	1,894	-	-	-
Capital outlay	3,643,166	2,125,591	1,035	-	24,963	901,737	197,523	392,317	-	-
Total expenditures	3,819,334	2,125,591	157,110	-	24,963	901,737	217,616	392,317	-	-
Excess of revenues over (under) expenditures	(1,917,294)	(1,609,730)	(156,221)	1,105	46,291	(42,100)	(18,865)	(138,692)	-	918
OTHER FINANCING SOURCES (USES)										
Proceeds from sale of capital assets	184,644	87,751	-	-	-	38,902	-	57,991	-	-
Transfers in	763,130	750,000	-	-	-	8,164	-	4,966	-	-
Transfers out	(319,930)	-	(35,132)	-	-	(4,966)	-	-	(279,832)	-
Total other financing sources (uses)	627,844	837,751	(35,132)	-	-	42,100	-	62,957	(279,832)	-
Net change in fund balances	(1,289,450)	(771,979)	(191,353)	1,105	46,291	-	(18,865)	(75,735)	(279,832)	918
Fund balances at July 1, 2015	2,743,297	1,066,378	191,353	220,826	305,987	-	89,358	75,798	279,832	513,765
Fund balances at June 30, 2016	\$ 1,453,847	\$ 294,399	\$ -	\$ 221,931	\$ 352,278	\$ -	\$ 70,493	\$ 63	\$ -	\$ 514,683

DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services – to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment – to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance – to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building – to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

City of Muskegon
COMBINING STATEMENT OF NET POSITION
Internal Service Funds
June 30, 2016

	Total Internal Service Funds	Engineering Services	Equipment	General Insurance	Public Service Building
ASSETS					
Current assets					
Cash and investments	\$ 3,052,079	\$ 36,081	\$ 699,089	\$ 1,702,109	\$ 614,800
Accounts receivable	212,998	-	18,462	194,536	-
Inventories	20,857	-	20,857	-	-
Prepaid items	210,818	1,305	63,289	139,228	6,996
Total current assets	3,496,752	37,386	801,697	2,035,873	621,796
Noncurrent assets					
Advances to component units	814,078	-	407,039	407,039	-
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	301,715	-	-	-	301,715
Buildings and improvements	1,559,334	-	-	-	1,559,334
Machinery and equipment	8,363,879	26,355	8,243,160	-	94,364
Less accumulated depreciation	(8,156,305)	(26,355)	(6,563,307)	-	(1,566,643)
Net capital assets	2,133,623	-	1,679,853	-	453,770
Total noncurrent assets	2,947,701	-	2,086,892	407,039	453,770
Total assets	6,444,453	37,386	2,888,589	2,442,912	1,075,566
DEFERRED OUFLOWS OF RESOURCES					
Related to pension	417,470	-	156,551	-	260,919
Total assets and deferred outflows of resources	6,861,923	37,386	3,045,140	2,442,912	1,336,485
LIABILITIES					
Current liabilities					
Accounts payable	370,767	1,313	58,037	296,124	15,293
Accrued liabilities	28,892	4,058	9,445	955	14,434
Due to other governmental units	12,244	12,244	-	-	-
Bonds and other obligations, due within one year	17,000	2,000	4,800	600	9,600
Total current liabilities	428,903	19,615	72,282	297,679	39,327
Noncurrent liabilities					
Bonds and other obligations, less amounts due within one year	84,928	10,271	24,003	2,852	47,802
Net pension liability	1,096,173	-	411,065	-	685,108
Total noncurrent liabilities	1,181,101	10,271	435,068	2,852	732,910
Total liabilities	1,610,004	29,886	507,350	300,531	772,237
DEFERRED INFLOWS OF RESOURCES					
Related to pension	12,941	-	4,853	-	8,088
Total liabilities and deferred inflows of resources	1,622,945	29,886	512,203	300,531	780,325
NET POSITION					
Net investment in capital assets	2,133,623	-	1,679,853	-	453,770
Unrestricted	3,105,355	7,500	853,084	2,142,381	102,390
Total net position	\$ 5,238,978	\$ 7,500	\$ 2,532,937	\$ 2,142,381	\$ 556,160

City of Muskegon
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Internal Service Funds
For the year ended June 30, 2016

	Total Internal Service Funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 8,194,396	\$ 236,514	\$ 2,359,699	\$ 4,621,423	\$ 976,760
Other	66,905	-	52,102	8,973	5,830
Total operating revenues	8,261,301	236,514	2,411,801	4,630,396	982,590
OPERATING EXPENSES					
Administration	367,517	69,192	89,488	81,144	127,693
Insurance premiums and claims	4,416,046	-	-	4,416,046	-
Other operations	3,500,037	265,364	2,166,199	53,006	1,015,468
Depreciation	380,993	-	316,276	-	64,717
Total operating expenses	8,664,593	334,556	2,571,963	4,550,196	1,207,878
Operating income (loss)	(403,292)	(98,042)	(160,162)	80,200	(225,288)
NONOPERATING REVENUES					
Investment earnings	43,109	29	17,343	22,402	3,335
Gain on sale of capital assets	8,624	-	8,624	-	-
Total nonoperating revenues	51,733	29	25,967	22,402	3,335
Income (loss) before transfers	(351,559)	(98,013)	(134,195)	102,602	(221,953)
TRANSFERS					
Transfers in	75,000	75,000	-	-	-
Change in net position	(276,559)	(23,013)	(134,195)	102,602	(221,953)
Net position at July 1, 2015	5,515,537	30,513	2,667,132	2,039,779	778,113
Net position at June 30, 2016	\$ 5,238,978	\$ 7,500	\$ 2,532,937	\$ 2,142,381	\$ 556,160

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2016

	Total Internal Service Funds	Engineering Services	Equipment	General Insurance	Public Service Building
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 56,501	\$ 13,813	\$ 33,715	\$ 8,973	\$ -
Receipts from interfund services provided	7,016,833	236,514	2,359,699	3,443,860	976,760
Other receipts	1,210,258	-	-	1,079,451	130,807
Payments to suppliers	(6,119,862)	(122,341)	(1,224,409)	(4,303,012)	(470,100)
Payments to employees	(1,302,293)	(122,792)	(341,301)	(279,203)	(558,997)
Payments for interfund services used	(851,912)	(72,004)	(638,155)	(3,667)	(138,086)
Net cash provided by (used for) operating activities	9,525	(66,810)	189,549	(53,598)	(59,616)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	75,000	75,000	-	-	-
Collections on advances to component units	76,722	-	38,361	38,361	-
Net cash provided by noncapital financing activities	151,722	75,000	38,361	38,361	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(192,913)	-	(172,023)	-	(20,890)
Proceeds from sale of capital assets	8,624	-	8,624	-	-
Net cash used for capital and related financing activities	(184,289)	-	(163,399)	-	(20,890)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	43,109	29	17,343	22,402	3,335
Net increase (decrease) in cash and investments	20,067	8,219	81,854	7,165	(77,171)
Cash and investments at July 1, 2015	3,032,012	27,862	617,235	1,694,944	691,971
Cash and investments at June 30, 2016	\$ 3,052,079	\$ 36,081	\$ 699,089	\$ 1,702,109	\$ 614,800
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ (403,292)	\$ (98,042)	\$ (160,162)	\$ 80,200	\$ (225,288)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	380,993	-	316,276	-	64,717
Change in assets and liabilities					
Receivables	22,291	13,813	(18,387)	(98,112)	124,977
Inventories	3,303	-	3,303	-	-
Prepaid items	79,705	1,017	(753)	80,416	(975)
Accounts payable	(265,539)	11,321	(22,469)	(116,976)	(137,415)
Accrued liabilities	192,064	5,081	71,741	874	114,368
Net cash provided by (used for) operating activities	\$ 9,525	\$ (66,810)	\$ 189,549	\$ (53,598)	\$ (59,616)

DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

AGENCY FUNDS are used to account for assets held as an agent for another organization or individual.

Collector – to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax – to account for levy, collection and payment of taxes levied for the general and other funds of the City, county, public school districts, and other governmental entities.

Rehab Loan Escrow – to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.

City of Muskegon
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2016

	Total Agency Funds	Collector	Current Tax	Rehab Loan Escrow
ASSETS				
Cash and investments	\$ 913,108	\$ 912,727	\$ -	\$ 381
Accounts receivable	10,675	10,675	-	-
Total assets	\$ 923,783	\$ 923,402	\$ -	\$ 381
LIABILITIES				
Accounts payable	\$ 756,087	\$ 755,706	\$ -	\$ 381
Due to other governmental units	87,995	87,995	-	-
Deposits held for others	79,701	79,701	-	-
Total liabilities	\$ 923,783	\$ 923,402	\$ -	\$ 381

City of Muskegon
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Agency Funds
For the year ended June 30, 2016

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<u>COLLECTOR FUND</u>				
ASSETS				
Cash and investments	\$ 1,013,889	\$ 8,204,773	\$ 8,305,935	\$ 912,727
Accounts receivable	1,867	307,500	298,692	10,675
Total assets	\$ 1,015,756	\$ 8,512,273	\$ 8,604,627	\$ 923,402
LIABILITIES				
Accounts payable	\$ 221,862	\$ 4,263,144	\$ 3,729,300	\$ 755,706
Due to other governmental units	713,717	1,059,718	1,685,440	87,995
Deposits held for others	80,177	2,480,019	2,480,495	79,701
Total liabilities	\$ 1,015,756	\$ 7,802,881	\$ 7,895,235	\$ 923,402
<u>CURRENT TAX FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 20,714,913	\$ 20,714,913	\$ -
LIABILITIES				
Due to other governmental units	\$ -	\$ 20,082,346	\$ 20,082,346	\$ -
Due to component units	-	648,370	648,370	-
Deposits held for others	-	65,522	65,522	-
Total liabilities	\$ -	\$ 20,796,238	\$ 20,796,238	\$ -
<u>REHAB LOAN ESCROW FUND</u>				
ASSETS				
Cash and investments	\$ 581	\$ 200	\$ 400	\$ 381
LIABILITIES				
Accounts payable	\$ 581	\$ 200	\$ 400	\$ 381
<u>ALL AGENCY FUNDS</u>				
ASSETS				
Cash and investments	\$ 1,014,470	\$ 28,919,886	\$ 29,021,248	\$ 913,108
Accounts receivable	1,867	307,500	298,692	10,675
Total assets	\$ 1,016,337	\$ 29,227,386	\$ 29,319,940	\$ 923,783
LIABILITIES				
Accounts payable	\$ 222,443	\$ 4,263,344	\$ 3,729,700	\$ 756,087
Due to other governmental units	713,717	21,142,064	21,767,786	87,995
Due to component units	-	648,370	648,370	-
Deposits held for others	80,177	2,545,541	2,546,017	79,701
Total liabilities	\$ 1,016,337	\$ 28,599,319	\$ 28,691,873	\$ 923,783

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DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority - SmartZone – to account for the collection of tax increment revenues and the construction of public facilities to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

Brownfield Redevelopment Authority – to account for the collection of tax increment revenues for environmental remediation in designated brownfield areas. Currently there are two designated brownfield areas capturing tax increments.

- Area I – Betten-Henry Street brownfield site.
- Area II – Former downtown mall brownfield site.

City of Muskegon
COMBINING BALANCE SHEET
Discretely Presented Component Units
June 30, 2016

	Total Discretely Presented Component Units	Local Development Finance Authority - SmartZone	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority I	Brownfield Redevelopment Authority II
ASSETS						
Cash and investments	\$ 228,990	\$ 21,030	\$ 118,840	\$ 454	\$ 70,699	\$ 17,967
LIABILITIES						
Advances from primary government	\$ 1,221,119	\$ -	\$ -	\$ -	\$ 1,221,119	\$ -
FUND BALANCES (DEFICITS)						
Unassigned	(992,129)	21,030	118,840	454	(1,150,420)	17,967
Total liabilities and fund balances (deficits)	\$ 228,990	\$ 21,030	\$ 118,840	\$ 454	\$ 70,699	\$ 17,967

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
Discretely Presented Component Units
June 30, 2016

Total fund balances (deficits)—governmental funds	\$ (992,129)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets	\$ 4,198,258	
Accumulated depreciation	<u>(2,172,488)</u>	2,025,770

Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Accrued interest payable	(20,336)	
Bonds and notes payable	<u>(4,966,420)</u>	<u>(4,986,756)</u>

Net position of governmental activities		<u><u>\$ (3,953,115)</u></u>
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City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Discretely Presented Component Units
For the year ended June 30, 2016

	Total Discretely Presented Component Units	Local Development Finance Authority - SmartZone	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority I	Brownfield Redevelopment Authority II
REVENUES						
Property taxes	\$ 653,974	\$ 95,372	\$ 227,201	\$ 34,398	\$ 136,555	\$ 160,448
Intergovernmental revenues - Local	440,000	265,000	175,000	-	-	-
Investment earnings	1,042	87	522	5	274	154
Other	75,000	75,000	-	-	-	-
Total revenues	1,170,016	435,459	402,723	34,403	136,829	160,602
EXPENDITURES						
Current						
Community and economic development	178,745	-	-	36,000	-	142,745
Debt service						
Principal	635,000	335,000	300,000	-	-	-
Interest and fees	182,971	112,950	35,325	-	34,696	-
Total expenditures	996,716	447,950	335,325	36,000	34,696	142,745
Net change in fund balances (deficits)	173,300	(12,491)	67,398	(1,597)	102,133	17,857
Fund balances (deficits) at July 1, 2015	(1,165,429)	33,521	51,442	2,051	(1,252,553)	110
Fund balances (deficits) at June 30, 2016	\$ (992,129)	\$ 21,030	\$ 118,840	\$ 454	\$ (1,150,420)	\$ 17,967

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES (DEFICITS)
TO THE STATEMENT OF ACTIVITIES**
Discretely Presented Component Units
For the year ended June 30, 2016

Net change in fund balances—total governmental funds	\$ 173,300
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(172,648)
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The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt	635,000
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Changes in accrual of interest and amortization of premiums and discounts

Change in accrued interest payable	\$ 1,991		
Amortization of premiums	36,401	38,392	

Change in net position of governmental activities		<u>\$ 674,044</u>	
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SCHEDULE OF INDEBTEDNESS

City of Muskegon

SCHEDULE OF INDEBTEDNESS

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	Annual Interest Payable
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds	4/1/2010	\$ 5,995,000	3.25%	05/01/16	\$ 685,000	\$ -	\$ -
(\$26,962 unamortized premium)			4.00%	05/01/17	710,000	710,000	90,725
			4.00%	05/01/18	740,000	740,000	62,325
Type of debt: revenue bond			4.25%	05/01/19	770,000	770,000	32,725
Revenue pledged: water system net revenues					<u>2,905,000</u>	<u>2,220,000</u>	<u>185,775</u>
Drinking Water State Revolving Fund	3/2/2004	\$ 13,900,000	2.13%	10/01/15	\$ 685,000	\$ -	\$ -
			2.13%	10/01/16	695,000	695,000	155,709
			2.13%	10/01/17	710,000	710,000	140,781
Type of debt: state loan			2.13%	10/01/18	725,000	725,000	125,534
Revenue pledged: water system net revenues			2.13%	10/01/19	745,000	745,000	109,916
			2.13%	10/01/20	760,000	760,000	93,925
			2.13%	10/01/21	775,000	775,000	77,616
			2.13%	10/01/22	790,000	790,000	60,988
			2.13%	10/01/23	810,000	810,000	43,988
			2.13%	10/01/24	825,000	825,000	26,616
			2.13%	10/01/25	840,000	840,000	8,925
					<u>8,360,000</u>	<u>7,675,000</u>	<u>843,998</u>
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 11,265,000</u>	<u>\$ 9,895,000</u>	<u>\$ 1,029,773</u>

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	4.05%	06/01/16	\$ 150,000	\$ -	\$ -
					150,000	-	-
Type of debt: limited G.O. bond							
Revenue pledged: special assessments, general revenues							
Capital improvement bonds of 2006 (fire station, recreation)	10/24/2006	\$ 5,400,000	4.00%	10/01/15	\$ 70,000	\$ -	\$ -
			4.00%	10/01/16	70,000	70,000	1,400
			4.00%	10/01/17	70,000	-	-
			4.00%	10/01/18	70,000	-	-
Type of debt: limited G.O. bond							
Revenue pledged: general revenues							
			4.00%	10/01/19	295,000	-	-
			4.00%	10/01/20	305,000	-	-
			4.00%	10/01/21	315,000	-	-
			4.00%	10/01/22	315,000	-	-
			4.00%	10/01/23	320,000	-	-
			4.00%	10/01/24	340,000	-	-
			4.00%	10/01/25	345,000	-	-
			4.00%	10/01/26	345,000	-	-
			4.10%	10/01/27	345,000	-	-
			4.10%	10/01/28	350,000	-	-
			4.10%	10/01/29	350,000	-	-
			4.20%	10/01/30	350,000	-	-
			4.20%	10/01/31	350,000	-	-
			4.20%	10/01/32	350,000	-	-
					4,955,000	70,000	1,400
Capital Improvement refunding bonds of 2016	3/8/2016	\$ 4,815,000	4.00%	10/01/16	\$ -	\$ -	164,947
			2.00%	10/01/17	-	70,000	166,100
			2.00%	10/01/18	-	65,000	164,750
Type of debt: limited G.O. bonds							
Revenue pledged: general revenue							
			3.00%	10/01/19	-	290,000	159,750
			3.00%	10/01/20	-	295,000	150,975
			3.00%	10/01/21	-	305,000	141,975
			3.00%	10/01/22	-	300,000	132,900
			4.00%	10/01/23	-	300,000	122,400
			4.00%	10/01/24	-	320,000	110,000
			4.00%	10/01/25	-	325,000	97,100
			4.00%	10/01/26	-	325,000	84,100
			4.00%	10/01/27	-	325,000	71,100
			4.00%	10/01/28	-	325,000	58,100
			4.00%	10/01/29	-	325,000	45,100
			4.00%	10/01/30	-	325,000	32,100
			4.00%	10/01/31	-	320,000	19,200
			4.00%	10/01/32	-	320,000	6,400
					-	4,535,000	1,726,997
Capital improvement bonds of 2011 (streets)	9/30/2011	\$ 2,000,000					
			2.98%	09/01/15	\$ 190,000	\$ -	\$ -
			2.98%	09/01/16	195,000	195,000	34,941
Type of debt: limited G.O. bond							
Revenue pledged: gas tax, general revenues							
			2.98%	09/01/17	200,000	200,000	29,055
			2.98%	09/01/18	210,000	210,000	22,946
			2.98%	09/01/19	215,000	215,000	16,614
			2.98%	09/01/20	220,000	220,000	10,132
			2.98%	09/01/21	230,000	230,000	3,427
					1,460,000	1,270,000	117,115
State of Michigan environmental assessment loan	6/18/2010	\$ 500,000					
			2.00%	03/18/16	\$ 18,199	\$ -	\$ -
Type of debt: state loan							
Revenue pledged: general revenues							
			2.00%	03/18/17	18,563	18,563	1,530
			2.00%	03/18/18	18,934	18,934	1,159
			2.00%	03/18/19	19,313	19,313	780
			2.00%	03/18/20	19,699	19,699	394
					94,708	76,509	3,863
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 6,659,708	\$ 5,951,509	\$ 1,849,375
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 17,924,708	\$ 15,846,509	\$ 2,879,148

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	Annual Interest Payable
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Type of debt: intergovernmental note							
Revenue pledged: DDA tax increments							
Downtown Development Authority refunding bonds (\$10,332 unamortized premium)	3/22/2011	\$ 2,045,000	3.50%	06/01/16	\$ 300,000	\$ -	\$ -
			3.75%	06/01/17	310,000	310,000	24,826
Type of debt: limited G.O. bond			4.00%	06/01/18	330,000	330,000	13,200
Revenue pledged: DDA tax increments, general revenues					940,000	640,000	38,026
Local Development Finance Authority Smartzone Refunding Bonds (\$131,088 unamortized premium)	3/20/2012	\$ 4,100,000	2.00%	11/01/15	\$ 335,000	\$ -	\$ -
			3.00%	11/01/16	345,000	345,000	104,425
Type of debt: limited G.O. bond			3.00%	11/01/17	355,000	355,000	93,925
Revenue pledged: LDFA tax increments, general revenues			4.00%	11/01/18	375,000	375,000	81,100
			4.00%	11/01/19	390,000	390,000	65,800
			4.00%	11/01/20	395,000	395,000	50,100
			4.00%	11/01/21	245,000	245,000	37,300
			3.00%	11/01/22	255,000	255,000	28,575
			3.00%	11/01/23	265,000	265,000	20,775
			3.00%	11/01/24	275,000	275,000	12,675
			3.00%	11/01/25	285,000	285,000	4,275
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					3,520,000	3,185,000	498,950
					\$ 5,460,000	\$ 4,825,000	\$ 536,976
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 23,384,708	\$ 20,671,509	\$ 3,416,124

Statistical Section

This part of the City of Muskegon's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Muskegon

NET ASSETS/NET POSITION BY COMPONENT

Last Ten Fiscal Years

	December 31			June 30						
	2007	2008	2009	2010	2011	2012	2013 (a)	2014	2015 (b)	2016
<u>Governmental Activities</u>										
Net Investment in Capital Assets	\$ 68,059,626	\$ 69,564,935	\$ 69,064,800	\$ 67,809,630	\$ 67,944,957	\$ 66,862,806	\$ 63,842,092	\$ 63,731,255	\$ 63,514,691	\$ 64,326,891
Restricted	5,485,703	3,557,678	2,956,449	3,059,208	3,656,410	3,526,343	4,572,848	4,023,895	4,807,531	4,140,342
Unrestricted	10,162,425	10,708,529	8,920,621	13,828,231	12,598,197	12,836,573	13,299,523	12,811,852	491,914	(4,142,119)
Total Governmental Net Assets/Net Position	\$ 83,707,754	\$ 83,831,142	\$ 80,941,870	\$ 84,697,069	\$ 84,199,564	\$ 83,225,722	\$ 81,714,463	\$ 80,567,002	\$ 68,814,136	\$ 64,325,114
<u>Business-type Activities</u>										
Net Investment in Capital Assets	\$ 39,356,966	\$ 40,876,621	\$ 41,876,507	\$ 41,105,739	\$ 40,419,728	\$ 40,147,600	\$ 40,032,858	\$ 39,365,043	\$ 39,231,223	\$ 39,013,529
Restricted	822,559	822,559	672,000	672,000	672,000	672,000	599,500	599,500	599,500	599,500
Unrestricted	7,980,823	6,775,508	5,983,935	7,630,396	9,211,610	8,961,713	8,491,848	8,377,093	6,423,540	5,762,272
Total Business-type Activities Net Assets/Net Position	\$ 48,160,348	\$ 48,474,688	\$ 48,532,442	\$ 49,408,135	\$ 50,303,338	\$ 49,781,313	\$ 49,124,206	\$ 48,341,636	\$ 46,254,263	\$ 45,375,301
<u>Primary Government</u>										
Net Investment in Capital Assets	\$ 107,416,592	\$ 110,441,556	\$ 110,941,307	\$ 108,915,369	\$ 108,364,685	\$ 107,010,406	\$ 103,874,950	\$ 103,096,298	\$ 102,745,914	\$ 103,340,420
Restricted	6,308,262	4,380,237	3,628,449	3,731,208	4,328,410	4,198,343	5,172,348	4,623,395	5,407,031	4,739,842
Unrestricted	18,143,248	17,484,037	14,904,556	21,458,627	21,809,807	21,798,286	21,791,371	21,188,945	6,915,454	1,620,153
Total Primary Government Net Assets/Net Position	\$ 131,868,102	\$ 132,305,830	\$ 129,474,312	\$ 134,105,204	\$ 134,502,902	\$ 133,007,035	\$ 130,838,669	\$ 128,908,638	\$ 115,068,399	\$ 109,700,415

(a) In 2013, the City implemented GASB 63 and 65 which changed the elements of the financial statements.

(b) In 2015, the City implemented GASB 68 and 71 which changed how governments measure and report pension liabilities.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon
CHANGES IN NET ASSETS/NET POSITION

Last Ten Fiscal Years

	Year Ended December 31			Period Ended June 30	Year Ended June 30					
	2007	2008	2009	2010	2011	2012	2013 (a)	2014	2015 (b)	2016
EXPENSES										
<u>Governmental Activities</u>										
Public representation	\$ 925,124	\$ 986,696	\$ 923,911	\$ 445,251	\$ 854,249	\$ 866,809	\$ 893,981	\$ 1,030,006	\$ 939,907	\$ 1,107,551
Administrative services	783,713	782,362	698,022	317,873	645,585	566,161	565,307	543,425	614,757	663,077
Financial services	2,205,041	2,292,430	2,406,517	1,209,694	2,373,141	2,399,147	2,241,061	2,171,958	2,547,766	2,331,236
Public safety	12,802,488	13,955,811	13,614,112	6,332,728	13,390,888	13,213,251	12,987,842	12,946,466	14,243,233	17,118,742
Public works	2,989,433	3,019,411	2,986,747	1,640,946	3,471,051	2,958,367	3,201,806	3,361,422	3,183,627	3,109,454
Highways, streets and bridges	7,272,288	7,265,438	7,160,797	3,680,196	7,013,216	6,568,448	6,672,374	7,053,326	7,165,703	7,251,882
Community and economic development	3,054,087	3,174,508	4,139,765	1,275,026	2,830,867	2,447,373	2,499,404	2,417,518	2,712,131	5,223,431
Culture and recreation	2,433,020	2,623,501	2,463,375	759,392	1,524,331	1,601,316	1,592,358	1,671,185	1,806,790	3,551,692
General administration	358,225	574,955	451,651	210,117	794,115	791,197	322,348	366,634	389,248	326,452
Interest on long-term debt	343,106	324,076	288,073	139,006	272,940	283,186	291,535	277,345	271,607	248,223
Total Governmental Activities Expenses	33,166,525	34,999,188	35,132,970	16,010,229	33,170,383	31,695,255	31,268,016	31,839,285	33,874,769	40,931,740
<u>Business-type Activities</u>										
Water	5,795,279	5,800,977	6,080,230	2,958,795	5,869,241	5,974,173	6,228,788	6,016,192	6,047,244	6,750,826
Sewer	5,066,693	5,503,144	5,426,321	2,525,067	5,288,622	6,202,359	7,226,839	7,582,602	8,460,509	8,669,469
Marina and launch ramp	392,994	347,642	310,773	150,055	292,889	310,174	426,553	503,997	305,990	327,832
Total Business-type Activities Expenses	11,254,966	11,651,763	11,817,324	5,633,917	11,450,752	12,486,706	13,882,180	14,102,791	14,813,743	15,748,127
Total Primary Government Expenses	\$ 44,421,491	\$ 46,650,951	\$ 46,950,294	\$ 21,644,146	\$ 44,621,135	\$ 44,181,961	\$ 45,150,196	\$ 45,942,076	\$ 48,688,512	\$ 56,679,867
PROGRAM REVENUES										
<u>Governmental Activities</u>										
Charges for Services										
Public representation	\$ 199,759	\$ 188,467	\$ 213,885	\$ 100,177	\$ 196,886	\$ 196,886	\$ 173,739	\$ 189,444	\$ 188,638	\$ 226,559
Administrative services	287,011	257,850	271,117	129,630	263,473	270,886	268,535	325,937	415,308	474,737
Financial services	744,109	726,572	818,845	475,031	879,905	881,229	830,919	871,632	823,547	925,474
Public safety	1,224,062	1,217,616	1,117,476	536,419	1,109,659	1,136,942	1,133,666	1,407,722	1,218,644	1,248,911
Public works	407,569	382,072	383,733	209,203	642,082	480,487	671,494	796,739	571,426	379,877
Highways, streets and bridges	372,133	301,955	251,840	139,009	451,473	230,241	245,609	351,962	258,475	234,861
Community and economic development	356,051	297,854	249,241	186,572	457,952	617,379	432,240	477,486	576,863	444,632
Culture and recreation	454,154	405,520	445,891	129,025	300,367	315,010	606,818	535,211	368,168	1,229,067
General administration	64,366	99,494	123,426	59,373	116,690	116,690	287,729	50,728	48,764	52,512
Operating grants and contributions	5,229,279	5,367,152	6,443,223	3,131,811	5,425,165	4,651,576	4,681,345	4,664,098	5,071,239	5,330,825
Capital grants and contributions	3,347,680	3,444,957	2,105,557	255,234	2,257,163	1,568,005	886,108	1,408,424	3,496,623	3,804,656
Total Governmental Program Revenues	12,686,173	12,689,509	12,424,234	5,351,484	12,100,815	10,465,331	10,218,202	11,079,383	13,037,695	14,352,111
<u>Business-type Activities</u>										
Water	6,569,228	6,240,060	5,883,830	2,891,169	5,454,760	5,254,095	5,890,614	6,099,480	6,375,869	7,485,013
Sewer	5,179,095	5,326,787	5,720,171	3,441,924	6,652,851	6,455,634	7,058,315	6,633,911	6,363,808	6,305,554
Marina and launch ramp	281,679	250,266	242,055	156,767	194,311	208,370	234,229	228,339	255,638	287,547
Operating grants and contributions	-	-	-	-	-	-	6,188	-	-	-
Capital grants and contributions	-	-	5,179	-	20,074	-	88,046	327,240	474,681	765,363
Total Business-type program revenues	12,030,002	11,817,113	11,851,235	6,489,860	12,321,996	11,918,099	13,277,392	13,288,970	13,469,996	14,843,477
Total Primary Government program revenues	\$ 24,716,175	\$ 24,506,622	\$ 24,275,469	\$ 11,841,344	\$ 24,422,811	\$ 22,383,430	\$ 23,495,594	\$ 24,368,353	\$ 26,507,691	\$ 29,195,588
NET (EXPENSE) REVENUE										
Governmental Activities	\$ (20,480,352)	\$ (22,309,679)	\$ (22,708,736)	\$ (10,658,745)	\$ (21,069,568)	\$ (21,229,924)	\$ (21,049,814)	\$ (20,759,902)	\$ (20,837,074)	\$ (26,579,629)
Business-type Activities	775,036	165,350	33,911	855,943	871,244	(568,607)	(813,821)	(813,821)	(1,343,747)	(904,650)
Total Primary Government net expense	\$ (19,705,316)	\$ (22,144,329)	\$ (22,674,825)	\$ (9,802,802)	\$ (20,198,324)	\$ (21,798,531)	\$ (21,654,602)	\$ (21,573,723)	\$ (22,180,821)	\$ (27,484,279)

City of Muskegon
CHANGES IN NET ASSETS/NET POSITION
Last Ten Fiscal Years

	Year Ended December 31			Period Ended June 30	Year Ended June 30					
	2007	2008	2009	2010	2011	2012	2013 (a)	2014	2015 (b)	2016
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS/NET POSITION										
<u>Governmental Activities</u>										
Property taxes	\$ 8,014,102	\$ 8,349,341	\$ 8,492,507	\$ 8,681,256	\$ 8,844,004	\$ 8,383,224	\$ 7,592,847	\$ 7,383,236	\$ 7,894,189	\$ 8,366,212
Income taxes	7,757,707	8,117,566	6,628,365	3,505,264	6,866,967	7,663,534	8,057,145	7,762,719	8,478,231	8,386,775
Franchise fees	297,200	304,812	321,852	178,239	362,103	342,376	358,785	358,754	369,965	372,117
Grants and contributions not restricted for specific programs	4,475,462	4,487,698	3,841,922	1,832,066	3,846,859	3,577,848	3,700,871	3,813,221	3,989,178	4,051,050
Unrestricted investment earnings	1,247,520	730,142	185,436	104,086	193,435	100,073	73,157	146,590	99,733	189,408
Miscellaneous	88,035	160,460	226,124	51,638	432,880	154,531	102,388	124,085	805,432	626,014
Gain on sale of capital asset	1,604	323,048	123,258	65,155	25,815	34,496	44,899	23,836	20,302	99,031
Transfers	(40,000)	(40,000)	-	(3,760)	-	-	-	-	-	-
Total Governmental Program Revenues	21,841,630	22,433,067	19,819,464	14,413,944	20,572,063	20,256,082	19,930,092	19,612,441	21,657,030	22,090,607
<u>Business-type Activities</u>										
Unrestricted investment earnings	170,594	108,990	23,843	15,990	23,959	46,582	33,148	31,251	29,879	25,688
Gain on sale of capital asset	-	-	-	-	-	-	-	-	-	-
Transfers	40,000	40,000	-	3,760	-	-	-	-	-	-
Total Business-type program revenues	210,594	148,990	23,843	19,750	23,959	46,582	33,148	31,251	29,879	25,688
Total Primary Government program revenues	\$ 22,052,224	\$ 22,582,057	\$ 19,843,307	\$ 14,433,694	\$ 20,596,022	\$ 20,302,664	\$ 19,963,240	\$ 19,643,692	\$ 21,686,909	\$ 22,116,295
CHANGE IN NET ASSETS/NET POSITION										
Governmental Activities	\$ 1,361,278	\$ 123,388	\$ (2,889,272)	\$ 3,755,199	\$ (497,505)	\$ (973,842)	\$ (1,119,722)	\$ (1,147,461)	\$ 819,956	\$ (4,489,022)
Business-type Activities	985,630	314,340	57,754	875,693	895,203	(522,025)	(571,640)	(782,570)	(1,313,868)	(878,962)
Total Primary Government	\$ 2,346,908	\$ 437,728	\$ (2,831,518)	\$ 4,630,892	\$ 397,698	\$ (1,495,867)	\$ (1,691,362)	\$ (1,930,031)	\$ (493,912)	\$ (5,367,984)

(a) In 2013, the City implemented GASB 63 and 65 which changed the elements of the financial statements.
(b) In 2015, the City implemented GASB 68 and 71 which changed how governments measure and report pension liabilities.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	December 31			June 30						
	2007	2008	2009	2010	2011 (a)	2012	2013	2014	2015	2016
General fund										
Reserved	\$ 180,410	\$ 214,819	\$ 187,633	\$ 300,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	-	-	251,173	178,468	447,341	300,952	220,178	232,332
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	2,385,728	2,075,738	2,292,495	1,700,000	1,700,000	1,700,000
Unassigned	-	-	-	-	3,374,481	4,265,839	4,613,722	5,495,145	5,883,318	6,098,977
Unreserved	2,740,222	2,168,906	1,451,029	5,737,485	-	-	-	-	-	-
Total general fund	<u>\$ 2,920,632</u>	<u>\$ 2,383,725</u>	<u>\$ 1,638,662</u>	<u>\$ 6,038,454</u>	<u>\$ 6,011,382</u>	<u>\$ 6,520,045</u>	<u>\$ 7,353,558</u>	<u>\$ 7,496,097</u>	<u>\$ 7,803,496</u>	<u>\$ 8,031,309</u>
All other governmental funds										
Reserved	\$ 4,130,995	\$ 4,382,118	\$ 3,613,858	\$ 3,887,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	-	-	1,704,256	1,568,318	1,547,793	1,556,347	2,073,747	1,597,371
Restricted	-	-	-	-	1,375,779	3,485,073	2,749,396	2,305,385	3,159,130	2,995,610
Assigned	-	-	-	-	2,073,027	2,055,904	2,087,359	1,729,457	2,146,050	1,373,669
Unassigned	-	-	-	-	(238,104)	(191,282)	(82,048)	(100,054)	-	-
Unreserved, reported in:										
Special revenue funds	4,462,015	2,768,886	2,060,117	2,163,041	-	-	-	-	-	-
Capital project funds	635,676	675,898	554,273	6,035	-	-	-	-	-	-
Permanent funds	84,413	60,813	15,613	16,979	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 9,313,099</u>	<u>\$ 7,887,715</u>	<u>\$ 6,243,861</u>	<u>\$ 6,073,344</u>	<u>\$ 4,914,958</u>	<u>\$ 6,918,013</u>	<u>\$ 6,302,500</u>	<u>\$ 5,491,135</u>	<u>\$ 7,378,927</u>	<u>\$ 5,966,650</u>

(a) In fiscal 2011, the City adopted GASB 54 which changed fund balance classifications.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	Year Ended December 31			Period Ended June 30	Year Ended June 30					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Taxes	\$ 15,420,032	\$ 15,728,859	\$ 14,673,012	\$ 11,855,182	\$ 15,146,430	\$ 15,506,668	\$ 14,832,027	\$ 14,954,904	\$ 15,830,137	\$ 16,178,761
Intergovernmental	12,752,363	13,012,035	12,400,408	4,785,494	11,525,749	9,899,379	9,403,554	9,945,065	12,301,594	11,711,788
Charges for services	2,722,894	2,463,975	2,620,372	1,338,194	2,769,204	2,596,328	2,769,227	2,569,335	2,468,889	3,468,938
Other	4,618,149	3,624,579	3,177,522	1,768,895	3,461,292	3,237,189	2,795,952	3,256,324	4,003,105	3,868,958
Total revenues	35,513,438	34,829,448	32,871,314	19,747,765	32,902,675	31,239,564	29,800,760	30,725,628	34,603,725	35,228,445
Expenditures										
Public representation	927,320	987,229	923,923	448,703	851,918	867,762	892,113	1,031,984	930,788	1,064,503
Administrative services	644,913	632,513	645,704	303,555	586,328	515,988	508,130	497,025	554,330	577,454
Financial services	2,231,519	2,298,830	2,406,623	1,241,430	2,352,709	2,407,131	2,196,917	2,197,651	2,476,740	2,068,208
Public safety	12,902,815	13,754,394	13,567,101	6,578,735	13,087,976	12,963,122	12,724,094	12,987,898	13,285,004	13,476,557
Public works	2,768,906	2,831,177	2,860,510	1,589,090	3,079,342	2,835,000	2,878,328	2,918,305	2,876,576	2,864,878
Highways, streets and bridges	6,504,915	6,414,453	3,436,069	1,823,089	3,226,377	2,756,010	2,815,337	3,011,611	2,986,909	3,102,391
Community and economic development	894,879	1,077,312	4,440,687	1,330,794	3,109,693	2,850,593	2,578,073	2,687,933	2,957,071	5,415,436
Culture and recreation	2,254,117	2,394,031	2,196,186	639,852	1,197,020	1,265,743	1,248,174	1,308,481	1,444,471	3,100,338
Other governmental functions	350,385	562,341	438,292	200,623	1,775,128	770,910	299,812	643,666	369,408	305,807
Debt service										
Principal	1,241,921	999,148	663,371	303,466	1,345,183	289,597	395,211	402,492	417,842	428,199
Interest and issuance costs	324,577	310,432	282,174	136,013	267,258	268,315	292,554	278,412	272,946	355,094
Capital outlay	5,683,657	5,473,828	3,517,741	980,822	3,301,273	2,948,610	3,230,586	3,577,837	3,992,111	3,867,579
Total expenditure	36,729,924	37,735,688	35,378,381	15,576,172	34,180,205	30,738,781	30,059,329	31,543,295	32,564,196	36,626,444
Excess of revenues over (under) expenditures	(1,216,486)	(2,906,240)	(2,507,067)	4,171,593	(1,277,530)	500,783	(258,569)	(817,667)	2,039,529	(1,397,999)
Other financing sources (uses)										
Transfers in	1,926,538	1,477,717	1,359,608	342,188	1,348,694	510,907	1,356,229	743,035	853,910	1,563,094
Transfers out	(1,994,584)	(1,409,491)	(1,309,910)	(359,971)	(1,376,740)	(613,953)	(784,275)	(771,081)	(942,933)	(1,638,094)
Bonds issued	-	500,000	-	-	-	2,000,000	-	-	-	97,578
Sale of capital assets	286,152	375,723	68,452	75,465	120,118	113,981	190,263	176,887	244,685	190,957
Total other financing sources (uses)	218,106	943,949	118,150	57,682	92,072	2,010,935	762,217	148,841	155,662	213,535
Net change in fund balances	\$ (998,380)	\$ (1,962,291)	\$ (2,388,917)	\$ 4,229,275	\$ (1,185,458)	\$ 2,511,718	\$ 503,648	\$ (668,826)	\$ 2,195,191	\$ (1,184,464)
Debt service as a percentage of noncapital expenditures	5.05%	4.06%	2.97%	3.01%	5.22%	2.01%	2.56%	2.43%	2.42%	2.39%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

Fiscal Year	Property Tax	% of Total	Income Tax	% of Total	Intergovernmental	% of Total	Charges for Service	% of Total	Licenses and Permits	% of Total	Fines and Fees	% of Total	Interest and Rent	% of Total	Other	% of Total	Total	% Change
2007	\$ 7,801,571	22.0%	\$ 7,618,461	21.5%	\$ 12,752,363	35.9%	\$ 2,722,894	7.7%	\$ 1,115,518	3.1%	\$ 606,545	1.7%	\$ 1,348,819	3.8%	\$ 1,547,267	4.4%	\$ 35,513,438	-2.6%
2008	8,034,079	23.1%	7,694,780	22.1%	13,012,035	37.4%	2,463,975	7.1%	1,089,187	3.1%	570,526	1.6%	861,515	2.5%	1,103,351	3.2%	34,829,448	-1.9%
2009	8,190,722	24.9%	6,482,290	19.7%	12,400,408	37.7%	2,620,372	8.0%	1,032,681	3.1%	582,394	1.8%	400,900	1.2%	1,161,547	3.5%	32,871,314	-5.6%
2010*	8,487,125	43.0%	3,368,057	17.1%	4,785,494	24.2%	1,338,194	6.8%	584,162	3.0%	297,043	1.5%	193,873	1.0%	693,817	3.5%	19,747,765	-39.9%
2011	8,546,677	26.0%	6,599,753	20.1%	11,525,749	35.0%	2,769,204	8.4%	1,179,639	3.6%	447,254	1.4%	412,498	1.3%	1,421,901	4.3%	32,902,675	66.6%
2012	8,093,864	25.9%	7,412,804	23.7%	9,899,379	31.7%	2,596,328	8.3%	1,223,034	3.9%	459,401	1.5%	307,891	1.0%	1,246,863	4.0%	31,239,564	-5.1%
2013	7,325,555	24.6%	7,506,472	25.2%	9,403,554	31.6%	2,769,227	9.3%	1,238,285	4.2%	435,893	1.5%	267,397	0.9%	854,377	2.9%	29,800,760	-4.6%
2014	7,123,481	23.2%	7,831,423	25.5%	9,945,065	32.4%	2,569,335	8.4%	1,570,137	5.1%	418,691	1.4%	352,153	1.1%	915,343	3.0%	30,725,628	3.1%
2015	7,555,471	21.8%	8,274,666	23.9%	12,301,594	35.5%	2,468,889	7.1%	1,361,721	3.9%	452,004	1.3%	343,105	1.0%	1,846,275	5.3%	34,603,725	12.6%
2016	8,026,859	22.8%	8,151,902	23.1%	11,711,788	33.2%	3,468,938	9.8%	1,443,144	4.1%	459,181	1.3%	455,671	1.3%	1,510,962	4.3%	35,228,445	1.8%

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Ad Valorem Assessment Roll								Industrial and Commercial Facilities Assessment Roll						Taxable Value As a Percent Actual
Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Taxable Valuation	Total City Millage Rate	
2006	\$ 341,365,730	\$ -	\$ 132,415,743	\$ 105,982,619	\$ 579,764,092	\$ 103,282,670	\$ 683,046,762	\$ 6,062,774	\$ 44,389,891	\$ -	\$ 50,452,665	\$ 733,499,427	11.0732	87.46%
2007	364,789,125	-	143,991,195	109,089,684	617,870,004	111,824,925	729,694,929	5,433,443	31,408,300	-	36,841,743	766,536,672	11.0685	87.21%
2008	376,414,856	160,219	140,833,691	109,931,336	627,340,102	114,100,484	741,440,586	5,747,358	24,617,400	-	30,364,758	771,805,344	11.0682	86.71%
2009	376,545,791	157,682	147,276,887	114,185,691	638,166,051	111,493,852	749,659,903	5,259,649	25,616,400	-	30,876,049	780,535,952	11.0680	91.48%
2010	332,105,030	-	144,721,736	109,507,141	586,333,907	104,029,037	690,362,944	4,111,154	9,129,000	-	13,240,154	703,603,098	12.0680	94.04%
2011	331,901,631	-	144,675,509	87,261,346	563,838,486	93,465,537	657,304,023	3,071,654	9,129,000	-	12,200,654	669,504,677	12.0749	94.95%
2012	312,930,252	-	134,635,427	81,575,476	529,141,155	91,750,891	620,892,046	3,587,223	6,161,900	-	9,749,123	630,641,169	12.0789	96.40%
2013	310,252,865	-	118,856,014	76,331,458	505,440,337	91,730,093	597,170,430	6,677,737	7,472,900	-	14,150,637	611,321,067	12.0865	96.97%
2014	312,031,296	-	115,070,943	61,196,955	488,299,194	91,020,452	579,319,646	3,874,303	6,512,600	-	10,386,903	589,706,549	13.0875	96.26%
2015	314,055,244	-	116,448,947	54,898,389	485,402,580	95,098,912	580,501,492	3,149,352	7,772,000	-	10,921,352	591,422,844	13.0869	95.28%

Assessed and Equalized Valuation of Property

Ad Valorem Assessment Roll								Industrial and Commercial Facilities Assessment Roll					
Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Assessed Valuation	Estimated Actual Value
2006	\$ 420,608,600	\$ -	\$ 149,948,800	\$ 113,890,900	\$ 684,448,300	\$ 103,288,100	\$ 787,736,400	\$ 6,454,200	\$ 44,470,600	\$ -	\$ 50,924,800	\$ 838,661,200	\$ 1,677,322,400
2007	448,120,317	-	160,361,200	121,432,880	729,914,397	111,829,191	841,743,588	5,850,600	31,408,300	-	37,258,900	879,002,488	1,758,004,976
2008	466,633,100	194,800	156,596,000	121,810,900	745,234,800	114,104,600	859,339,400	6,162,900	24,617,400	-	30,780,300	890,119,700	1,780,239,400
2009	426,002,850	191,100	161,996,600	122,301,800	710,492,350	111,497,300	821,989,650	5,606,100	25,616,400	-	31,222,500	853,212,150	1,706,424,300
2010	354,044,700	-	154,185,000	122,703,400	630,933,100	104,020,200	734,953,300	4,120,400	9,129,000	-	13,249,400	748,202,700	1,496,405,400
2011	354,307,945	-	154,700,200	90,467,700	599,475,845	93,456,700	692,932,545	3,080,900	9,129,000	-	12,209,900	705,142,445	1,410,284,890
2012	327,226,000	-	141,238,834	84,084,000	552,548,834	91,740,800	644,289,634	3,719,300	6,161,900	-	9,881,200	654,170,834	1,308,341,668
2013	321,604,220	-	123,831,400	79,037,400	524,473,020	91,720,300	616,193,320	6,766,000	7,472,900	-	14,238,900	630,432,220	1,260,864,440
2014	326,690,900	-	120,803,800	63,704,200	511,198,900	91,004,400	602,203,300	3,877,300	6,512,600	-	10,389,900	612,593,200	1,225,186,400
2015	335,445,400	-	122,235,800	57,024,100	514,705,300	95,084,900	609,790,200	3,149,800	7,772,000	-	10,921,800	620,712,000	1,241,424,000

Property is assessed at 50% of true cash value. The assessed and equalized valuation of taxable property is determined as of December 31st of each year and is the basis upon which taxes are levied during the succeeding fiscal year. The passage of Proposal A in May, 1994 altered how tax values are determined. Beginning in the 1995-1996 fiscal year, property taxes are based on taxable value instead of state equalized value. Proposal A also capped taxable value of each parcel of property, adjusted for additions and losses, at the previous year's rate of inflation or 5% whichever is less, until the property is sold or transferred. When ownership of a parcel of property is transferred, the taxable value becomes 50% of true cash value, or the state equalized valuation. The Industrial and Commercial Facilities Tax Acts permit certain property to be taxed at one-half the tax rate for a period up to twelve years.

City of Muskegon

Principal Property Taxpayers

June 30, 2016

Taxpayer	6/30/2016			12/31/2006		
	Taxable Valuation	Rank	Percent of Total Taxable Valuation	Taxable Valuation	Rank	Percent of Total Taxable Valuation
Consumers Energy	\$ 32,085,934	1	5.6%	\$ 73,427,881	1	10.8%
DTE Gas Company	6,989,800	2	1.2%	9,049,818	3	1.3%
ADAC Plastics	6,550,900	3	1.1%			0.0%
Esco Company	6,240,000	4	1.1%	5,833,749	6	0.9%
Fleet Engineers Inc	4,790,700	5	0.8%			0.0%
GE Aviation (Johnson Technology)	4,595,700	6	0.8%	8,147,615	4	1.2%
Ameriform Acquisition Co LLC	4,260,600	7	0.7%			
Muskegon SC Holdings LLC	3,942,791	8	0.7%			0.0%
Lorin Industries	3,906,313	9	0.7%	5,107,151	9	0.7%
Mercy General	3,665,660	10	0.6%			
Sappi (S.D. Warren Co.)				41,547,186	2	6.1%
Honeywell Inc				5,306,979	8	0.8%
Brunswick				7,100,200	5	1.0%
Hinman Lake LLC				5,449,900	7	0.8%
Coles Quality Foods				4,834,501	10	0.7%
Total - 10 Largest	77,028,398		13.4%	165,804,980		24.3%
Total - All Other	499,469,809		86.6%	515,932,015		75.7%
	\$ 576,498,207		100.0%	\$ 681,736,995		100.0%

Source: Muskegon County Equalization Department; City of Muskegon Treasurer's Office

City of Muskegon

Property Tax Rates - Direct and Overlapping Government Units
Property Tax Rates Per \$1,000 Taxable Valuation
Last Ten Fiscal Years

City-Wide Rates						
Year	Operating	Promotion	Sanitation	Total City	Library District	Library Debt
2006	8.5000	0.0732	2.5000	11.0732	2.4000	-
2007	8.5000	0.0685	2.5000	11.0685	2.4000	-
2008	8.5000	0.0682	2.5000	11.0682	2.4000	-
2009	8.9000	0.0680	2.1000	11.0680	2.4000	-
2010	9.5000	0.0680	2.5000	12.0680	2.4000	-
2011	9.5000	0.0749	2.5000	12.0749	2.4000	-
2012	9.5000	0.0789	2.5000	12.0789	2.4000	-
2013	9.5000	0.0865	2.5000	12.0865	2.4000	-
2014	10.0000	0.0875	3.0000	13.0875	2.4000	-
2015	10.0000	0.0869	3.0000	13.0869	2.4000	0.5611

Overlapping - County-Wide Rates							
Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College	MAISD Gen Ed	Community College Debt
2006	6.7557	0.4597	2.2987	0.9996	2.2037	-	-
2007	6.7357	0.4597	2.2987	0.9996	2.2037	-	-
2008	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2009	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2010	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2011	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2012	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2013	6.6957	0.4597	2.2987	0.9996	2.2037	-	-
2014	6.6557	0.4597	2.2987	0.9996	2.2037	1.0000	0.3400
2015	6.6357	0.4597	2.2987	0.9996	2.2037	1.0000	0.3400

Overlapping - School District					Grand Total	
Year	Operating	Debt	Total	State Education	Homestead	Non-Homestead
2006	18.0000	7.0000	25.0000	6.0000	39.1906	57.1906
2007	18.0000	7.0000	25.0000	6.0000	39.1659	57.1659
2008	18.0000	5.5000	23.5000	6.0000	37.6256	55.6256
2009	18.0000	5.6000	23.6000	6.0000	37.7254	55.7254
2010	18.0000	5.7500	23.7500	6.0000	38.8754	56.8754
2011	18.0000	6.2500	24.2500	6.0000	39.3823	57.3823
2012	18.0000	7.1000	25.1000	6.0000	40.2363	58.2363
2013	18.0000	7.1000	25.1000	6.0000	40.2439	58.2439
2014	18.0000	7.6000	25.6000	6.0000	43.0449	61.0449
2015	18.0000	6.8000	24.8000	6.0000	42.7854	60.7854

City of Muskegon

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Tax Collections as % of Levy	Charge backs On Uncollected Delinquent Taxes	Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
2006	\$ 8,207,019	\$ 7,231,508	88.1%	\$ 885,675	\$ 8,117,183	98.9%	\$ 13,461	\$ 65,297	\$ 24,539	1.26%
2007	8,542,477	7,509,102	87.9%	949,754	8,458,856	99.0%	-	67,586	20,748	1.03%
2008	8,466,096	7,219,540	85.3%	1,135,738	8,355,278	98.7%	36,917	73,430	37,388	1.75%
2009	8,700,017	7,522,462	86.5%	1,102,891	8,625,353	99.1%	25,755	73,440	34,758	1.54%
2010	8,945,500	7,784,052	87.0%	1,077,056	8,861,108	99.1%	58,027	70,745	13,647	1.59%
2011	8,583,284	7,457,610	86.9%	1,030,902	8,488,512	98.9%	54,707	80,068	12,935	1.72%
2012	7,872,541	6,882,534	87.4%	915,950	7,798,484	99.1%	27,163	68,945	5,113	1.29%
2013	7,668,166	6,703,147	87.4%	912,362	7,615,509	99.3%	102,713	45,361	7,296	2.03%
2014	8,032,955	7,069,804	88.0%	917,806	7,987,610	99.4%	57,680	41,074	2,788	1.26%
2015	8,132,782	7,247,701	89.1%	848,266	8,095,967	99.5%	62,345	33,407	1,862	1.20%

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon
SEGMENTED DATA ON INCOME TAX FILERS, RATES AND LIABILITY

Most recent Year and Ten Years Previous

Taxable Income per Return <i>Individual and Joint Returns</i>	Year Ended June 30, 2016					Year Ended December 31, 2006				
	# of	% of Total	Total Taxable		% of Total	# of	% of Total	Total Taxable		% of Total
	Returns	Returns Filed	Income	Tax Dollars	Tax Dollars	Returns	Returns Filed	Income	Tax Dollars	Tax Dollars
Resident Taxpayers: <i>(City resident income, after exemptions, exclusions and deductions is taxed at a flat rate of 1%.)</i>										
\$2,500 or less	818	5%	\$ 679,600	\$ 6,796	0%	1,060	5%	\$ 1,024,320	\$ 10,244	0%
\$2,501-\$7,500	575	3%	5,103,500	51,035	1%	958	4%	6,793,111	67,931	1%
\$7,501-\$25,000	1,490	8%	42,418,800	424,188	5%	2,306	10%	52,164,415	521,644	7%
\$25,001-\$50,000	1,433	8%	91,213,200	912,132	11%	1,975	8%	101,397,525	1,013,975	14%
\$50,001-\$100,000	821	5%	98,858,900	988,589	12%	940	4%	88,123,511	881,235	12%
More than \$100,000	200	1%	54,229,600	542,296	7%	169	1%	40,051,819	400,518	5%
Subtotal	5,337	30%	\$ 292,503,600	\$ 2,925,036	36%	7,408	32%	\$ 289,554,701	\$ 2,895,547	39%
Non-Residents Taxpayers: <i>(Non-residents are taxed at a rate of 0.5% on income earned within the City.)</i>										
\$2,500 or less	1,588	9%	\$ 859,000	\$ 6,817	0%	2,176	9%	\$ 1,356,400	\$ 9,663	0%
\$2,501-\$7,500	1,032	6%	4,935,400	39,167	0%	1,430	6%	6,776,800	48,280	1%
\$7,501-\$25,000	2,292	13%	37,316,600	296,141	4%	3,515	15%	57,272,600	408,028	5%
\$25,001-\$50,000	2,886	16%	105,492,400	837,178	10%	4,129	18%	151,385,000	1,078,514	15%
\$50,001-\$100,000	2,220	12%	148,117,600	1,175,448	14%	2,407	10%	158,686,800	1,130,534	15%
More than \$100,000	695	4%	153,768,600	1,220,294	15%	578	2%	120,280,400	856,915	12%
Subtotal	10,713	60%	\$ 450,489,600	\$ 3,575,045	44%	14,235	61%	\$ 495,758,000	\$ 3,531,934	48%
All Other Returns <i>(Mostly corporate returns which pay at a rate of 1% on income earned in City and partnerships which pay based on partners residence status.)</i>										
Subtotal	1,750	10%	\$ 1,651,821	20%		1,850	8%	\$ 997,692	13%	
Total	17,800	100%	\$ 8,151,902	100%		23,493	100%	\$ 7,425,173	100%	

NOTE: Due to confidentiality issues, the names of the ten largest income tax payers are not available. The categories presented are intended to provide alternative information regarding sources of the City's revenue.

SOURCE: City of Muskegon Income Tax Department. The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities				Business-Type Activities					
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business- Type Activities	Total Primary Government	Per Capita
2007	\$ 7,444,118	\$ 395,000	\$ 1,136,900	\$ 8,976,018	\$ 7,565,000	\$ 1,221,207	\$ 12,760,000	\$ 21,546,207	\$ 30,522,225	\$ 766
2008	6,844,970	215,000	1,416,900	8,476,870	7,075,000	-	12,170,000	19,245,000	27,721,870	696
2009	6,623,499	70,000	1,120,000	7,813,499	6,565,000	-	11,570,000	18,135,000	25,948,499	659
2010*	6,444,605	-	1,065,428	7,510,033	5,995,000	-	11,570,000	17,565,000	25,075,033	639
2011	5,920,000	-	244,850	6,164,850	5,415,000	-	10,955,000	16,370,000	22,534,850	587
2012	7,725,000	-	150,253	7,875,253	4,815,000	-	10,325,000	15,140,000	23,015,253	599
2013	7,350,000	-	130,042	7,480,042	4,205,000	-	9,685,000	13,890,000	21,370,042	577
2014	6,954,535	-	112,550	7,067,085	3,630,728	-	9,030,000	12,660,728	19,727,813	533
2015	6,555,436	-	94,708	6,650,144	2,949,368	-	8,360,000	11,309,368	17,959,512	483
2016	6,243,903	-	76,509	6,320,412	2,246,962	-	7,675,000	9,921,962	16,242,374	436

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

NOTE: None of the debt issued by the City is payable through the levy of property tax millages.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

DIRECT AND OVERLAPPING DEBT

June 30, 2016

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	Debt Supported by City General Revenues
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 9,921,962	\$ 9,921,962	\$ -
Capital Improvement Bonds	6,243,903	-	6,243,903
Intergovernmental Bonds	76,509	-	76,509
Component Unit Debt:			
Downtown Development Authority	1,650,332	1,650,332	-
Local Development Finance Authority	3,316,088	3,316,088	-
Total City Direct Debt	\$ 21,208,794	\$ 14,888,382	\$ 6,320,412

	Gross	City Share as Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 17,640,000	95.08%	\$ 16,772,112
Orchard View School District	43,496,963	24.95%	10,852,492
Reeths Puffer School District	71,693,222	2.89%	2,071,934
Muskegon Intermediate School District	-		-
Hackley Public Library	2,998,728	95.08%	2,851,191
Muskegon County	72,485,000	13.36%	9,683,996
Muskegon Community College	28,350,000	13.36%	3,787,560
Total Overlapping Debt	\$ 236,663,913		46,019,285
Total City Direct and Overlapping Debt			\$ 52,339,697

NOTE: None of the debt issued by the City is payable through the levy of property tax millages.

The percentage of overlapping debt is estimated using taxable property values. Applicable percentages were estimated by determining the portion of the City's taxable value that is within each overlapping government unit's boundaries. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

SOURCE: Municipal Advisory Council of Michigan and City of Muskegon Finance Department. The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
Debt Limit	\$ 84,174,359	\$ 85,933,940	\$ 82,198,965	\$ 82,198,965	\$ 78,308,925	\$ 73,585,150	\$ 68,555,700	\$ 61,706,477	\$ 61,510,980	\$ 60,962,090
Total net debt applicable to limit	15,591,018	15,481,870	14,778,499	14,435,033	12,929,850	14,375,253	13,655,042	12,847,550	11,313,794	10,776,509
Legal debt margin	\$ 68,583,341	\$ 70,452,070	\$ 67,420,466	\$ 67,763,932	\$ 65,379,075	\$ 59,209,897	\$ 54,900,658	\$ 48,858,927	\$ 50,197,186	\$ 50,185,581
Total net debt applicable to the limit as a percentage of debt limit	18.52%	18.02%	17.98%	17.56%	16.51%	19.54%	19.92%	20.82%	18.39%	17.68%

Legal Debt Margin Calculation for 2016:

Assessed Valuation:	\$ 609,620,900
Legal Debt Limit (10%)	60,962,090
Total Indebtedness:	\$ 21,208,794
Debt not Subject to Limitation:	
Paid by Special Assessment	-
Revenue Bonds	(9,895,000)
Debt Subject to Limitation	11,313,794
Legal Debt Margin	\$ 49,648,296

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

**City of Muskegon
REVENUE BOND COVERAGE**

Last Ten Fiscal Years

Water Supply System

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	\$ 6,705,739	\$ 3,404,649	\$ 3,301,090	\$ 1,045,000	\$ 632,036	\$ 1,677,036	1.97
2008	6,336,135	3,407,903	2,928,232	1,080,000	600,377	1,680,377	1.74
2009	5,906,313	3,498,263	2,408,050	1,110,000	567,462	1,677,462	1.44
2010*	2,904,735	1,575,275	1,329,460	535,000	271,522	806,522	1.65
2011	5,467,785	3,294,530	2,173,255	1,195,000	451,323	1,646,323	1.32
2012	5,273,720	3,441,078	1,832,642	1,230,000	410,187	1,640,187	1.12
2013	5,907,784	3,729,276	2,178,508	1,250,000	384,694	1,634,694	1.33
2014	6,109,144	3,511,477	2,597,667	1,295,000	352,634	1,647,634	1.58
2015	6,388,474	3,774,508	2,613,966	1,330,000	320,857	1,650,857	1.58
2016	7,498,376	4,460,076	3,038,300	1,370,000	283,360	1,653,360	1.84

Sewage Disposal System

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	\$ 5,213,140	\$ 4,435,211	\$ 777,929	\$ 506,822	\$ 25,221	\$ 532,043	1.46
2008	5,338,647	4,979,343	359,304	546,278	12,550	558,828	0.64
2009			No Direct System Indebtedness				
2010*			No Direct System Indebtedness				
2011			No Direct System Indebtedness				
2012			No Direct System Indebtedness				
2013			No Direct System Indebtedness				
2014			No Direct System Indebtedness				
2015			No Direct System Indebtedness				
2016			No Direct System Indebtedness				

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net position or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School Enrollment	Building Permits		Unemployment
						Number	Value	
2007	39,825	\$ 693,052,515	17,402	32.3	5,534	941	\$ 36,129,064	9.5%
2008	39,825	710,378,828	17,838	32.3	5,361	946	23,001,998	11.5%
2009	39,401	720,386,117	18,283	32.8	5,931	909	18,417,289	16.2%
2010	39,259	735,734,614	18,741	32.8	5,931	374	11,900,915	17.8%
2011	38,401	737,646,617	19,209	34.1	5,162	835	18,829,825	13.8%
2012	38,225	752,622,470	19,689	34.1	5,428	891	21,932,738	8.5%
2013	37,046	747,644,037	20,182	34.1	4,367	826	24,613,938	12.0%
2014	37,213	769,789,707	20,686	34.1	4,808	1,108	54,065,115	9.6%
2015	37,213	789,034,450	21,203	35.8	4,387	1,102	46,541,966	10.3%
2016	37,213	808,760,311	21,733	35.8	4,206	1,112	58,924,856	8.3%

SOURCE: US Census Bureau, Muskegon Area Intermediate School District (MAISD), City of Muskegon Inspections Department, Michigan Department of Technology, Management, & Budget

**City of Muskegon
PRINCIPAL EMPLOYERS**

Current Year and Ten Years Ago

Employer	2016			2006		
	Employees	Rank	Percentage of total City employment	Employees	Rank	Percentage of total City employment
Mercy General Health Partners*	4,114	1	27.4%	2,000	1	11.9%
ADAC Plastics	970	2	6.5%	500	6	3.0%
County of Muskegon	755	3	5.0%	1,280	3	7.6%
Port City Group	667	4	4.4%			
Muskegon Public Schools	565	5	3.8%	1,050	5	6.3%
SAF Holland USA	345	6	2.3%			
G.E. Aviation	341	7	2.3%			
Betten Automotive Group	232	8	1.5%			
Muskegon Community College	198	9	1.3%			
Cole's Quality Foods	180	10	1.2%	1,610	2	9.6%
State of Michigan				1,175	4	7.0%
Verizon				350	8	2.1%
Johnson Technology Inc.				425	7	2.5%
Sappi Fine Paper (formerly SD Warren)				250	10	1.5%
City of Muskegon				270	9	1.6%

* Hackley Hospital merged with the former Mercy Hospital to become Mercy General Health Partners.

SOURCE: City of Muskegon; Muskegon Area First; Michigan Department of Energy, Labor & Economic Growth

City of Muskegon

BUDGETED FULL-TIME CITY GOVERNMENT POSITIONS BY DEPARTMENT

Last Ten Fiscal Years

Department	2006	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
Administration	1.50	1.50	1.50	-	-	0.40	0.40	0.40	0.40	-	-
Affirmative Action	1.50	1.50	1.50	1.50	1.50	1.10	1.10	1.10	1.10	1.30	1.30
Cemetaries	3.00	3.25	3.25	3.25	2.50	2.20	1.75	1.25	1.25	1.25	1.25
City Clerk & Elections	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
City Commission	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
City Hall Maintenance	1.00	1.00	1.00	1.00	1.00	0.55	0.55	0.55	0.55	0.55	0.55
City Manager's Office	1.75	1.75	1.75	3.25	2.25	2.25	2.25	2.25	2.25	2.05	2.05
City Treasurer's Office	5.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	5.50	5.50
Civil Service	2.00	2.00	2.00	2.00	2.00	1.00	-	-	-	-	-
Environmental Services	2.00	2.00	2.00	2.00	2.00	2.00	5.00	5.00	5.00	2.00	2.00
Farmers Market	-	-	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Finance Administration	4.00	4.00	4.00	4.00	3.00	3.00	3.00	2.00	2.00	3.00	3.00
Fire	38.00	38.00	38.00	38.00	36.00	33.00	35.00	28.00	28.83	32.00	35.00
Fire Safety Inspections	12.00	12.00	12.00	12.00	9.00	8.00	6.00	6.00	0.83	-	-
Forestry	-	-	-	-	-	-	-	-	-	-	-
General Recreation	1.17	1.33	1.66	1.66	2.00	-	-	-	-	-	-
Income Tax Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	3.50	3.50
Information Systems	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Parks	8.25	8.15	8.15	7.99	7.15	6.00	6.05	6.05	6.00	6.00	6.00
Planning, Zoning & Economic Development	6.00	6.00	6.00	6.00	5.00	4.00	3.00	3.00	3.00	3.40	3.40
Police	94.00	94.00	94.00	94.00	88.00	88.00	88.00	88.00	87.34	88.00	88.00
Sanitation	1.00	1.00	1.00	1.00	-	0.30	0.20	0.20	0.20	0.20	0.20
Senior Transit	-	-	-	-	-	-	0.05	0.05	0.05	-	-
MVH-Major Streets	16.00	17.75	15.75	13.75	12.00	12.00	11.70	10.70	10.70	10.70	10.70
MVH-Local Streets	7.00	7.00	6.00	8.00	7.00	7.00	6.70	6.70	6.70	6.70	6.70
MVH-State Trunklines	2.00	-	-	-	-	-	-	-	-	-	-
Walker Arena	-	-	-	-	-	-	-	-	-	-	-
Community Development	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Home Program	1.00	1.00	1.00	1.00	0.25	0.25	-	-	-	-	-
Lead Program	-	-	-	-	0.75	0.75	-	-	-	-	-
Sewer Maintenance	16.00	16.20	15.20	13.20	10.20	10.20	9.75	9.75	9.80	9.80	9.80
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	9.00	10.00	10.00	10.00	10.00
Water Maintenance	13.00	12.50	13.50	15.40	12.40	12.40	11.75	11.75	11.75	11.75	11.75
Hartshorn Marina Fund	0.73	0.67	0.34	0.05	0.05	0.05	0.30	0.30	0.30	0.30	0.30
Public Service Building	3.45	3.45	3.45	3.70	8.95	8.05	7.95	8.45	8.45	8.50	8.50
Engineering	7.45	7.45	7.45	7.45	5.45	4.95	4.95	4.95	4.95	4.95	4.95
Equipment	8.95	8.25	8.25	8.50	7.25	6.25	6.25	6.25	6.25	6.25	6.25
	284.00	282.00	280.00	280.00	256.00	244.00	241.00	233.00	227.00	228.00	231.00

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: City of Muskegon Finance Department

City of Muskegon

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
<u>Administrative Services</u>										
Elections										
Number of registered voters	26,345	27,678	26,136	26,136	26,330	26,324	26,098	26,025	24,014	24,005
Number of votes cast:										
Last general election	10,410	15,271	15,271	15,271	8,106	1,933	13,487	3,029	7,763	2,547
Last city election	1,101	1,101	2,254	2,254	8,106	1,933	2,131	3,029	7,763	2,547
Percentage of registered voters voting:										
Last general election	40%	55%	58%	58%	31%	7%	52%	12%	32%	11%
Last city election	4%	4%	9%	9%	31%	7%	8%	12%	32%	11%
<u>Financial Services</u>										
Property Tax Bills	15,376	15,350	15,435	-	15,351	15,261	15,291	15,211	14,528	14,611
Income Tax Returns	23,141	22,598	21,071	19,963	19,688	18,699	17,857	18,222	17,839	17,800
Paper Check Issued to Vendors	3,347	3,346	3,113	1,486	2,986	3,746	1,677	1,404	1,527	1,608
Electronic Payments to Vendors	772	763	963	450	884	1,334	1,251	1,579	1,471	1,849
<u>Public Safety</u>										
Fire Protection										
Number of firefighter and officer positions	41	41	37	37	37	36	41	38	35	35
Number of emergency calls	4,171	4,298	4,220	2,062	4,402	4,676	4,563	4,354	4,881	4,938
Police Protection										
Number of sworn officer positions	84	84	79	79	79	79	79	76	76	76
Part I (Major) Crimes	2,997	3,107	3,071	1,305	2,859	2,772	2,647	2,240	2,107	1,989
<u>Public Works</u>										
Refuse Collected (Tons per Year)	10,375	10,401	10,526	6,042	12,703	10,153	9,958	10,217	10,512	10,994
Recyclables Collected (Tons per Year)	629	626	309	-	-	-	-	-	-	-
<u>Water & Sewer</u>										
Number of consumers	14,364	13,131	12,987	12,966	13,037	13,109	13,144	13,086	13,223	13,307
Average daily water consumption (GPD)	9,314,000	8,879,000	7,976,000	7,163,000	8,417,000	7,700,000	7,651,000	7,666,000	8,293,570	11,027,945
Water main breaks repaired	21	34	17	6	12	5	11	30	15	16
Sewer flows (Millions Gallons per Year)	1,945	2,181	1,979	965	1,625	1,695	1,777	1,833	2,013	1,794
Sewer Service Calls	598	533	508	263	591	522	508	532	501	521

* The City changed its fiscal year end from December 31 to June 30.

SOURCE: City of Muskegon Departments

City of Muskegon

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
<u>Public Safety</u>										
Fire Protection										
Number of stations	3	3	3	3	3	3	3	3	3	3
Police Protection										
Number of stations	1	1	1	1	1	1	1	1	1	1
<u>Highways, Streets and Bridges</u>										
Miles of Streets	197.79	197.79	196.95	196.95	196.95	196.95	196.95	196.95	196.95	196.95
Number of streetlights	3,134	3,134	3,192	3,125	3,065	2,838	2,838	2,838	2,838	2,900
<u>Culture and Recreation</u>										
Number of parks (acres)	701	701	701	701	701	701	701	701	701	701
Lake Michigan beaches (acres)	119	119	119	119	119	119	119	119	119	119
Hockey/Entertainment Arena	1	1	1	1	1	1	1	1	1	1
<u>Sewer</u>										
Sanitary sewers (miles)	177.04	177.04	177.04	177.04	177.04	177.04	177.04	177.04	177.04	177.04
Storm sewers (miles)	183.25	183.60	184.35	184.35	184.35	184.35	184.35	184.25	184.35	184.35
<u>Water</u>										
Water mains (miles)	195.63	195.58	195.69	195.69	195.69	195.40	195.95	195.95	195.95	195.95

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: City of Muskegon Departments

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SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

December 5, 2016

City Commission
City of Muskegon
Muskegon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Muskegon's basic financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

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

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

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

BRICKLEY DELONG

City Commission
City of Muskegon
December 5, 2016
Page 2

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Brickley De Long, P.C." The signature is written in a cursive, flowing style.

Muskegon, Michigan

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

December 5, 2016

City Commission
City of Muskegon
Muskegon, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Muskegon's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Muskegon's major federal programs for the year ended June 30, 2016. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Muskegon's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Muskegon's compliance.

BRICKLEY DELONG

City Commission
City of Muskegon
December 5, 2016
Page 2

Opinion on Each Major Federal Program

In our opinion, the City of Muskegon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Muskegon's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Muskegon, Michigan

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title/Identifying Number	Federal CFDA Number	Program or Award Amount	Accrued (Unearned) Revenue July 1, 2015	Adjustments and Transfers	Cash or Payments In- Kind Received (Cash Basis)	Amount of Grant Expenditures	Accrued (Unearned) Revenue June 30, 2016	Passed Through to Subrecipients
<i>U.S. Department of Agriculture</i>								
Direct programs								
Farmers Market Promotion Program 15FMPPMI0088	10.168	\$ 75,000	\$ -	\$ -	\$ 3,094	\$ 12,000	\$ 8,906	\$ -
<i>U.S. Department of Housing and Urban Development</i>								
Direct programs								
Community Development Block Grants/Entitlement Grants	14.218							
B-14-MC-26-0026		897,025	308,564	(70,347)	238,217	-	-	-
B-15-MC-26-0026		895,410	-	70,347	844,419	825,063	50,991	3,339
Program Income		73,476	-	-	73,476	73,476	-	-
Total Community Development Block Grants/ Entitlement Grants		1,865,911	308,564	-	1,156,112	898,539	50,991	3,339
HOME Investment Partnerships Program	14.239							
M-13-MC-26-0215		282,526	-	-	27,452	27,452	-	-
M-14-MC-26-0215		275,421	-	-	164,236	164,236	-	-
M-15-MC-26-0215		268,639	-	-	57,662	61,937	4,275	-
Program Income		133,726	(75,798)	-	47,291	133,726	10,637	-
Total HOME Investment Partnerships Program		960,312	(75,798)	-	296,641	387,351	14,912	-
Total U.S. Department of Housing and Urban Development		2,826,223	232,766	-	1,452,753	1,285,890	65,903	3,339

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—Continued
For the year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title/Identifying Number	Federal CFDA Number	Program or Award Amount	Accrued (Unearned) Revenue July 1, 2015	Adjustments and Transfers	Cash or Payments In- Kind Received (Cash Basis)	Amount of Grant Expenditures	Accrued (Unearned) Revenue June 30, 2016	Passed Through to Subrecipients
<i>U.S. Department of Justice</i>								
Direct programs								
Bulletproof Vest Partnership Grant 2014 Grant	16.607	\$ 9,076	\$ -	\$ -	\$ 1,264	\$ 4,740	\$ 3,476	\$ -
Edward Byrne Memorial Justice Assistance Grant Program 2015-DJ-BX-0773	16.738	43,531	-	-	43,531	43,531	-	-
Total direct programs		52,607	-	-	44,795	48,271	3,476	-
Passed through Ottawa County								
Edward Byrne Memorial Justice Assistance Grant Program 2015-MU-BX-0964	16.738	12,250	-	-	12,250	12,250	-	-
Total U.S. Department of Justice		64,857	-	-	57,045	60,521	3,476	-
<i>U.S. Environmental Protection Agency</i>								
Direct programs								
Great Lakes Program 00E01414	64.469	110,449	-	-	-	2,616	2,616	-
Brownfields Assessment and Cleanup Cooperative Agreements 00E01538	66.818	400,000	-	-	-	30,117	30,117	-
Total U.S. Environmental Protection Agency		510,449	-	-	-	32,733	32,733	-
TOTAL FEDERAL ASSISTANCE		\$ 3,476,529	\$ 232,766	\$ -	\$ 1,512,892	\$ 1,391,144	\$ 111,018	\$ 3,339

The accompanying notes are an integral part of this schedule.

City of Muskegon
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

1. The accompanying Schedule of Expenditures of Federal Awards (the "schedule") includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or change in net position of the City.
2. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City is not using the ten-percent de minimis indirect cost rate as allowed under the Uniform Guidance.
3. The following is a reconciliation of federal revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances of the City of Muskegon's financial statements for the year ended June 30, 2016 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements	
General Fund	\$ 72,521
Major Street and Trunkline Fund	239,952
Other governmental funds	<u>1,111,421</u>
	1,423,894
Plus program income	207,202
Less MDOT contracted projects as shown below	<u>(239,952)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,391,144</u></u>

4. The Michigan Department of Transportation (MDOT) requires that cities report all federal and state grants pertaining to their city. During the year ended June 30, 2016 the federal aid received and expended by the City of Muskegon was \$239,952 for contracted projects as shown below. Contracted projects are defined as projects performed by private contractors and paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the City of Muskegon administers the grant and either performs the work or contracts it out.

	<u>Federal CFDA Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<i>U.S Department of Transportation, Federal Highway Administration (contracted projects)</i>			
Passed through the Michigan Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		
Proj STP 1561(010) Fed Item HK 0325 Contract 15-5281		\$ 239,532	\$ 239,532

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2016

SECTION I—SUMMARY OF AUDITOR’S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ yes **X** no
 - Significant deficiency(ies) identified? _____ yes **X** none reported
3. Noncompliance material to financial statements noted? _____ yes **X** no

B. Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? _____ yes **X** no
 - Significant deficiency(ies) identified? _____ yes **X** none reported
2. Type of auditors' report issued on compliance for major federal programs: **Unmodified**
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes **X** no

4. Identification of major programs:

CFDA Number(s)

Name of Federal Program/Cluster

14.218

**U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement
Grants**

5. Dollar threshold used to distinguish between type A and type B programs: **\$750,000**
6. Auditee qualified as low-risk auditee? **X** yes _____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

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CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 5, 2016

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2015 dated October 29, 2015.

SECTION II – FINANCIAL STATEMENT FINDINGS

There were **no** findings in relation to the financial statement audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015-001: Community Development Block Grants/Entitlement Grants – Time and Effort Documentation Procedures

U.S. Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants
CFDA: 14.218
Award Numbers: B-13-MC-26-0026 and B-14-MC-26-0026
Award year ends: June 30, 2015

Specific Requirement: Allowable Costs/Cost Principles

Condition: During our detailed testing of the Community Development Block Grants/Entitlement Grants time and effort documentation, we noted that adequate personnel activity reports were not prepared in accordance with the federal requirements for all employees whose wages and benefits were charged to the federal program. In addition, we noted that the City did not properly summarize personnel activity reports on their reconciliations for all personnel activity reports.

Recommendation: The City should educate all employees working in federal programs of the requirements for documenting time and effort under OMB Circular A-87, and the City should require appropriate time and effort documentation and necessary reconciliations to be properly prepared and reviewed.

Current Status: The recommendation was implemented during the year ended June 30, 2016. **No** findings were noted during the single audit for the year ended June 30, 2016.

Sincerely,



Derrick Smith
Finance Director

CORRECTIVE ACTION PLAN

December 5, 2016

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended June 30, 2016.

Name and address of independent public accounting firm:

Brickley DeLong, P.C.
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2016

The findings from the Schedule of Findings and Responses for the year ended June 30, 2016 provided **no** findings in either Section II or Section III. Accordingly, there are **no** matters requiring corrective action as shown below.

SECTION II – FINANCIAL STATEMENT FINDINGS

There were **no** findings in relation to the financial statement audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were **no** findings in relation to the major federal award programs.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Derrick Smith at (231) 724-6709.

Sincerely,



Derrick Smith
Finance Director