

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Year Ended December 31, 2008

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**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2008**

Prepared By

FINANCIAL SERVICES DIVISION

**Timothy Paul
Director of Finance**

**Elizabeth Lewis
Assistant Finance Director**

**Derrick Smith
City Treasurer**

**Kenneth Grant
Income Tax Administrator**

**James Maurer
Information Systems Director**

**Kathy Coleman
Accounts Payable**

**Matt Lee
Payroll**

Cover Photo: Cormorant resting at Heritage Landing in Downtown Muskegon (Courtesy of Donna Mayol)

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City of Muskegon

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Affirmative
Action
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1214

Cemetery
(231)724-6783
FAX (231)726-
5617

City Manager
(231)724-6724
FAX (231)722-
1214

Civil Service
(231)724-6716
FAX (231)724-
4405

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

Comm. &
Neigh. Services
(231)724-6717
FAX (231)726-
2501

Finance
(231)724-6713
FAX (231)724-
6768

Fire Department
(231)724-6792
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

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April 8, 2008

Honorable Mayor and Members of the
City Commission
City of Muskegon
Muskegon, Michigan 49443

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2008. This report includes the City's audited financial statements in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong, P.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

City of Muskegon, 933 Terrace Street, P.O. Box 536, Muskegon, MI 49443-0536
<http://www.shorelinecity.com>

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THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of approximately 40,000, 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 MSA.

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

- Michigan Adventure Amusement Park, located north of the city, is the largest amusement park in Michigan. The recent extension of City water to the amusement park is expected to spur further development in and around the amusement park.
- Muskegon is home to both a professional hockey team (UHL Muskegon Lumberjacks) and a professional arena football team (Muskegon Thunder). Both teams play in the 5,000 seat L. C. Walker Arena in downtown Muskegon.
- Muskegon is the eastern terminus for the high speed cross-lake ferry. Connecting Muskegon with Milwaukee, Wisconsin, the service ferries 100,000-plus passengers each season between the two cities.
- 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 tens of thousands of visitors to the community. These include *Muskegon Summer Celebration* which brings top name musical groups to town for 11 days of waterfront music celebration and the *Bike Time* festival which attracts thousands of motorcycle enthusiasts to the city each July.
- 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 ages. The Fire Barn Museum takes visitors back to a 1890s 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

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- *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.

The City operates under a Commission-Manager form of government and provides a full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, solid waste collection, community development and general administrative support services. The City also provides treated water to several surrounding communities on a wholesale basis.

COMPONENT UNITS

The City has four discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are appointed and approved by the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created four separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA). Only one of these four districts has debt outstanding at this time.
- The Brownfield Redevelopment Authority (BRA), which exists primarily for the purpose of financing redevelopment of designated environmental brownfields. The BRA generates tax increment revenues through development within the it's boundaries.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, paper products, 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. Local income tax withholdings remitted by these employers provide stability to City finances in times of economic weakness.

The current economic crisis has impacted Muskegon, but not to the extent it has other Michigan communities. According to the W.E. Upjohn Institute's local economic forecast for 2009-10:

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- Muskegon County's employment trends have deteriorated slightly in the last two years but are still above the state's;
- Muskegon's manufacturing sector is doing better than the nation's and well above the state's trend;
- Muskegon MSA's private services employment growth is above the nation's and the state's.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2008 were the following:

- Development activity in the City's downtown was very active with several major projects reaching completion:
 - Construction was completed on the new \$3.0 million headquarters building for the Muskegon Area Chamber of Commerce;
 - Construction was completed on a \$3.5 million office building anchored by a local engineering and architectural firm;
 - The \$2.0 million renovation of the former National City Bank Building was substantially completed with the opening of a new bar/restaurant;
 - Work progressed on construction of Baker College's new \$11.0 million culinary arts training facility which is to open for students in June 2009;
 - Two condominiums in the Heritage Square "live-work" development were completed. A total of twenty-two units are planned for this downtown development;
 - Plans were unveiled for the \$5.0 million renovation of the 8-story former Comerica Bank building into residential condominium units.
- A major West Michigan auto dealership began work on a \$12 million expansion of its facilities encompassing GM, Honda and Hyundai brands. The City is assisted in this project with the creation of a Brownfield Redevelopment Authority and securing a low-interest state loan to help finance environmental work.
- A new 50,000 square foot distribution center was completed by a local plastics company.

OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the

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costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

BUDGETARY CONTROL

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.

DEBT ADMINISTRATION

At December 31, 2008, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$37,542,753. During 2008, the City agreed to a \$500,000 long term loan from the State of Michigan to help fund environmental cleanup work. The loan will be repaid by developers of brownfield sites located within the City. No other long term debt was issued in 2008.

Standard & Poor's has affirmed the City's general obligation debt rating of **A**. Also, during the year the City was notified that the rating on its water system debt was upgraded by Standard & Poor's from **A-** to **AA-**.

CASH MANAGEMENT AND INVESTMENTS

Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in liquid short-term funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

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PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City has transferred administrative responsibility for defined benefit pensions to the statewide Municipal Employees Retirement System (MERS) of Michigan. This was done to achieve the economies of scale and investment diversification that the \$6 billion MERS program offers. A parallel effort has been to reduce the City's retirement funding liabilities and volatility by replacing defined benefit pensions with a defined contribution model. This goal has been achieved and, all new employees hired by the City are now covered by a defined contribution retirement program.

The City also provides post-retirement healthcare benefits for retirees and their dependents. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation prepared annually and has followed a program of prefunding the obligation in the same manner as its pension obligations. In 2005, the City implemented the requirements of GASB statements 43 and 45 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."

RISK MANAGEMENT

During 2008, the City continued participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. During 2008, the City incurred losses of \$393,983 (including reserves). Since the City began participating in the MMRMA program in March 1986, total losses paid (including expenses but excluding reinsurance recoveries) have been \$8,245,336.

SINGLE AUDIT

The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

AWARDS

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 for the year ended December 31, 2007. This marked the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently

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organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We would like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their efforts in working for the betterment of the Muskegon community. We would also like to thank the many City employees who participate in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script that reads "Timothy J. Paul".

Timothy J. Paul
Director of Finance

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
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



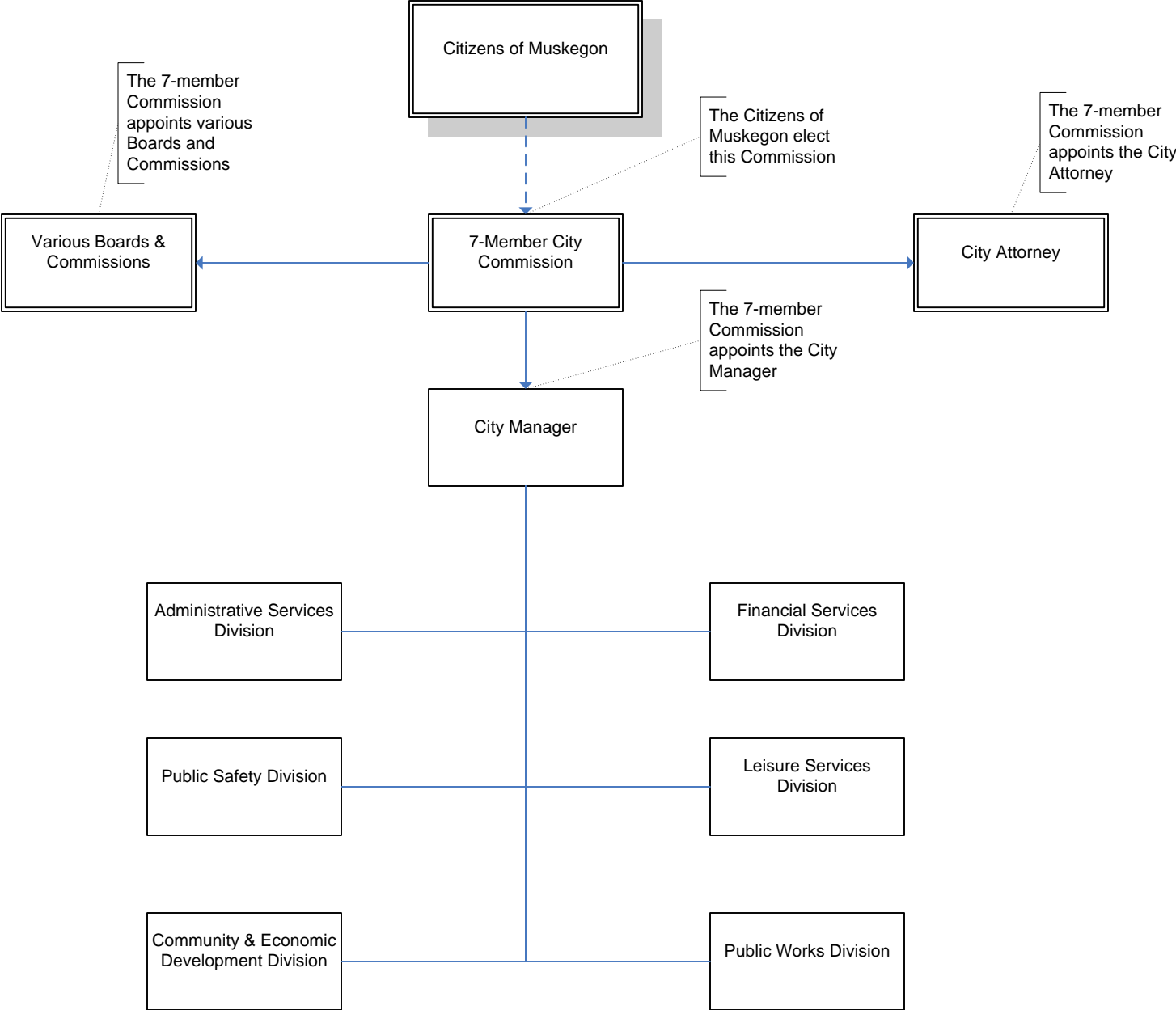
A handwritten signature in black ink, appearing to read "M. L. R.", written in a cursive style.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", written in a cursive style.

Executive Director

City Of Muskegon Organizational Chart



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

December 31, 2008

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Steve Wisneski
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

April 8, 2009

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 as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, as of December 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 19 -30 and 72 - 79 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

City Commission
April 8, 2009
Page 2

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, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

Brickley De Long, P.C.

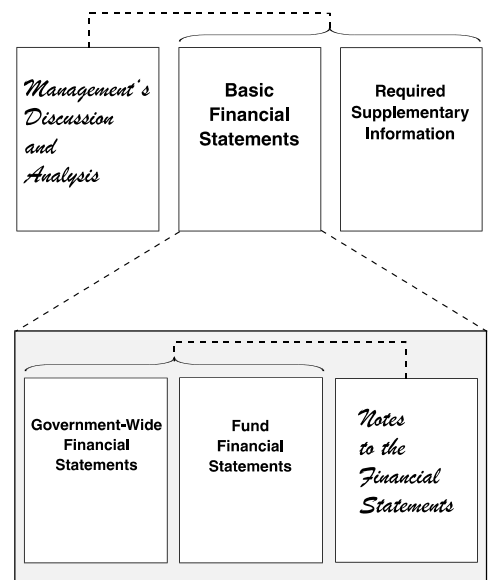
MANAGEMENT’S DISCUSSION AND ANALYSIS

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 December 31, 2008. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Muskegon exceeded its liabilities by \$132,305,830 as of December 31, 2008. Of the total net assets, \$17,484,037 (13.2%) was unrestricted and may be used to meet the City’s ongoing obligations to citizens and creditors.
- The City’s total combined net assets increased \$437,728 during 2008. This increase is primarily the result of higher property tax and income tax revenues.
- The City’s governmental funds reported combined ending fund balance of \$10,271,440, a decrease of \$1,962,291 from the prior year. Most of the change results from capital spending for street improvements.
- The City’s General Fund reported a total fund balance of \$2,383,725, a decrease of \$536,907 from the prior year. The decrease is attributed to higher operating costs for public safety functions and additional general fund transfers made to fund street improvements.
- The City also maintains a Budget Stabilization (or “rainy day”) Fund that reported a \$2.0 million fund balance of at December 31, 2008, an increase of \$250,000 from 2007.

Figure A-1, Required Components of the City’s Annual Financial Report



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. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. 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 assets includes all of the government's assets and liabilities. 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 assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets 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 general government, public safety, highways and streets, sanitation, economic development, parks and recreation, 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.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

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 are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *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 assets and a statement of changes in fiduciary net assets. 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 six component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA), three Local Development Finance Authorities (LDFAs) and, the newly created Brownfield Redevelopment Authority (BRA). 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 assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. The total net assets of the City were \$132,305,830 as of December 31, 2008. This is an increase of \$437,728 over reported net assets for the prior year. A summary of the City's net assets follows:

City's Net Assets

(In Thousands of Dollars)

	Governmental		Business-Type		Total		Percentage Change <u>2008-2007</u>
	<u>Activities</u>		<u>Activities</u>				
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Current and other assets	\$26,501	\$27,904	\$8,824	\$10,603	\$35,325	\$38,507	-8.26%
Capital assets	77,490	76,350	60,002	59,933	137,492	136,283	0.89%
Total Assets	103,991	104,254	68,826	70,536	172,817	174,790	-1.13%
Long-term liabilities	9,000	9,083	18,240	19,337	27,240	28,420	-4.15%
Other liabilities	11,160	11,463	2,111	3,039	13,271	14,502	-8.49%
Total Liabilities	20,160	20,546	20,351	22,376	40,511	42,922	-5.62%
Net Assets							
Invested in capital assets, net of related debt	69,565	68,060	40,877	39,357	110,442	107,417	2.82%
Restricted	3,557	5,485	822	822	4,379	6,307	-30.57%
Unrestricted	10,709	10,163	6,776	7,981	17,485	18,144	-3.63%
Total Net Assets	\$83,831	\$83,708	\$48,475	\$48,160	\$132,306	\$131,868	0.33%

The bulk of the City's net assets (\$110,441,556 or 83%) represent investments in capital infrastructure assets, less the remaining balance of debt issued to acquire those assets. Infrastructure assets are used to provide public services to citizens and are not available for spending. Another 3.3% (\$4,380,237) of the City's net assets are legally restricted as to use. The remaining net assets (\$17,484,037) are unrestricted and may be used to meet the City's operating needs and ongoing obligations.

Changes in net assets. The City's total revenues were \$47,088,679, up 0.7% from 2007. One-third of the City's revenue stream came from charges to users of specific services such as water or sewer. Another nineteen percent came from grants from the state and federal governments and thirty-five percent was from local property and income taxes. The remainder was comprised of state revenues and other sources such as investment income.

The total cost of all City programs and services during 2008 was \$46,650,951, an increase of \$2,229,460 from 2007. Seventy-five percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-five percent represents the costs of the City's business-type activities, specifically, water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$437,728) represents the increase in total net assets for 2008. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

Changes in City's Net Assets

(In thousands of dollars)

	Governmental		Business-Type		Total		Percentage Change 2008-2007
	Activities		Activities				
	2008	2007	2008	2007	2008	2007	
Program revenues							
Charges for services	\$3,877	\$4,109	\$11,817	\$12,030	\$15,694	\$16,139	-2.76%
Operating grants and contributions	5,367	5,229	-	-	5,367	5,229	2.64%
Capital grants and contributions	3,445	3,348	-	-	3,445	3,348	2.90%
General revenues							
Property taxes	8,349	8,014	-	-	8,349	8,014	4.18%
Income taxes	8,118	7,758	-	-	8,118	7,758	4.64%
State shared revenues	4,488	4,475	-	-	4,488	4,475	0.29%
All other	1,519	1,634	109	170	1,628	1,804	-9.76%
Total revenues	35,163	34,567	11,926	12,200	47,089	46,767	0.69%
Governmental activities expenses							
Public representation	987	925	-	-	987	925	6.70%
Administrative services	783	784	-	-	783	784	-0.13%
Financial services	2,292	2,205	-	-	2,292	2,205	3.95%
Public safety	13,956	12,802	-	-	13,956	12,802	9.01%
Public works	3,019	2,989	-	-	3,019	2,989	1.00%
Highways, streets and bridges	7,265	7,272	-	-	7,265	7,272	-0.10%
Community and economic development	3,175	3,054	-	-	3,175	3,054	3.96%
Culture and recreation	2,624	2,433	-	-	2,624	2,433	7.85%
General administration	575	358	-	-	575	358	60.61%
Interest on long-term debt	324	343	-	-	324	343	-5.54%
Business-type activities expenses							
Water	-	-	5,801	5,795	5,801	5,795	0.10%
Sewer	-	-	5,503	5,067	5,503	5,067	8.60%
Marina and Launch Ramp	-	-	347	393	347	393	-11.70%
Total expenses	35,000	33,165	11,651	11,255	46,651	44,420	5.02%
Change in net assets before transfers	163	1,402	275	945	438	2,347	-81.34%
Transfers	(40)	(40)	40	40	-	-	-
Change in net assets	123	1,362	315	985	438	2,347	-81.34%
Net assets at beginning of year	83,708	82,346	48,160	47,175	131,868	129,521	1.81%
Net assets at end of year	\$83,831	\$83,708	\$48,475	\$48,160	\$132,306	\$131,868	0.33%

Net assets for governmental activities increased slightly (\$123,388) as economic conditions slowed income tax and other revenue growth. Business-type activities saw an increase in net assets of \$314,340, down from last year's increase of \$985,630.

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 2008 was \$34,999,188.
- The net cost that City taxpayers paid for these activities through local taxes was \$16,466,907, or 47% of the total.

- The remaining cost was paid by user charges to those who directly benefit 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			% Change	Net Cost of Services		
	2008	2007			2008	2007	% Change 2008-2007
Governmental activities							
Public safety	\$13,956	\$12,802	9.0%	\$12,670	\$11,476	10.4%	
Community and economic development	3,175	3,054	4.0%	742	620	19.7%	
Culture and recreation	2,624	2,433	7.9%	2,157	1,801	19.8%	
Highways, streets and bridges	7,265	7,272	-0.1%	495	773	-36.0%	
Public works	3,019	2,989	1.0%	2,610	2,554	2.2%	
All other	4,961	4,615	7.5%	3,636	3,257	11.6%	
Total governmental activities	\$35,000	\$33,165	5.5%	\$22,310	\$20,481	8.9%	

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2008, the City's total business-type activities realized an overall increase in net assets of \$314,340.

Most of the increase is attributable to Water Fund operations. Despite a decline in water sales, operating costs in this fund were lower than anticipated resulting in increased net assets. Sewer Fund net assets decreased \$185,902 due both to higher wastewater treatment costs and the aforementioned drop in metered water sales. Marina and Launch Ramp Fund net assets decreased \$57,217 primarily due to depreciation charges on state-funded dock improvements.

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 2008 were the General Fund and the Major Street and Trunkline Fund.

General Fund Highlights

The General Fund receives the 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 to take into account changing economic conditions and policy priorities. The following table shows the General Fund year-end fund balance for the last five years.

Year	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%)
2008	\$2,383,725	-18.4%	\$ 24,800,810	9.61%
2007	2,920,632	+8.6%	24,498,778	11.92%
2006	2,690,039	+6.8%	23,658,227	11.37%
2005	2,519,605	+3.0%	23,388,020	10.77%
2004	2,445,191	+0.5%	23,705,334	10.31%

Actual 2008 General Fund expenditures were \$85,266 more than the final amended budget amount. Most of this variance resulted from higher than anticipated public safety costs. Significant budget amendments made during the year included:

- Police and Fire – amended to account for higher costs resulting from labor contract settlements and the completion of a revised actuarial valuation of retiree healthcare costs.
- Parks Maintenance – amended to reflect increased costs for maintaining bike trail system and Shoreline Drive landscaping.
- Transfers to Other Funds – amended to account for year-end transfers of resources to the Budget Stabilization (\$250,000), Major Streets (\$200,000), Sidewalk Replacement (\$150,000) funds.

General Fund revenues for 2008 were \$86,130 lower than the final amended budget. This variance is primarily attributable to a six-month delay in the payment of two large invoices for city services. The national economic crisis that emerged in the fourth quarter of 2008 impacted the City's General Fund. Income tax collections, which had been strong for most of the year, fell off in the fourth quarter and came in under the amended budget projection. Finally, the City made a \$250,000 year-end transfer to it's Budget Stabilization ("rainy day") Fund in anticipation of further national economic troubles.

As a result, the City's General Fund ended 2008 with a fund balance that decreased from the prior year and fell slightly short of the policy target (10% of prior year expenditures).

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. During 2008, the fund balance of the Major Street and Trunkline Fund decreased \$884,222 as a result of an aggressive street construction program using local dollars to leverage state and federal highway grants.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the City and its component units had invested \$140,810,959 in a variety of capital assets, including land, streets, equipment, buildings, water and sewer lines, and vehicles. Note D of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

The City's largest capital asset projects during 2008 were for street improvement projects.

Long-Term Debt

At year-end 2008, the City had \$29,288,465 in bonds and other long-term obligations outstanding. This represents a decrease of 8.4% from the prior year. During 2008 the City agreed to a \$500,000 loan from the State of Michigan to fund environmental cleanup work on Brownfield redevelopment sites. The debt will be repaid by developers who elect to access the funds through the City. No other new debt was issued during 2008.

Bond Ratings

The City's limited full faith and credit bonds (i.e. bonds guaranteed by the City's taxing powers) presently carry a Standard & Poors rating of "A". Water System bonds are rated "AA-".

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

City's Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Governmental		Business-Type		Total		Total Percentage Change 2008-2007
	Activities		Activities		Total		
	2008	2007	2008	2007	2008	2007	
Due within one year	\$ 909	\$1,224	\$1,139	\$2,330	\$2,048	\$3,554	-42.4%
Due in more than one year	<u>9,000</u>	<u>9,083</u>	<u>18,241</u>	<u>19,337</u>	<u>27,241</u>	<u>28,420</u>	-4.1%
Total bonds & other obligations	\$9,909	\$10,307	\$19,380	\$21,667	\$29,289	\$31,974	-8.4%

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 \$8,254,288 at year-end as shown in the table below. Debt issued by these 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 I to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Downtown Finance Authority		Local Development Finance Authority		Total		Total Percentage Change 2008-2007
	2008	2007	2008	2007	2008	2007	
Due within one year	\$220	\$210	\$80	\$80	\$ 300	\$ 290	3.4%
Due in more than one year	3,475	3,695	4,479	4,559	7,954	8,254	-3.6%
Total bonds & other obligations	\$3,695	\$3,905	\$4,559	\$4,639	\$8,254	\$8,544	-3.4%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2009 capital budget anticipates spending \$7,744,155 for capital projects, principally street improvements, water and sewer system improvements, and scheduled equipment replacements. These improvements will be funded through grants and revenues generated by operations. No new debt issuance is anticipated in 2009.

From an operations standpoint, the City's 2009 budget plan is to maintain current service levels with no new major expenditure initiatives.

To fund operations, the City depends 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 the City's total revenues. Meaningful discussion of the City's financial outlook needs to center on these major income sources.

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 employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempt from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions.

Income tax revenues increased from \$7,618,461 in 2007 to \$7,694,780 for 2008 (+1.0%). For 2009, the City has revised the income tax revenue estimate at \$7,100,000. The following table shows the makeup of the City's income tax base:

Category	Number of Payers	2008 Amount Paid	Percent of Total	Average Amount Paid 2008	Average Amount Paid 2007
City Resident	7,266	\$ 2,905,997	38%	\$ 400	\$397
Non-Resident	13,482	3,551,774	46%	263	254
Corporate	1,850	1,237,009	16%	669	631
Total	22,598	\$7,694,780	100%	\$ 341	\$329

Local Property Tax

The City's 2008 property tax millage consisted of 11 mills: 8.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits 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. As shown below, the City's property values have grown modestly over the last few years. For 2009, the City is projecting \$7,787,372 in property taxes, a 1.6% increase over the \$7,666,645 collected in 2008.

Year	Total Assessed Value	Percent Change	Estimated Actual Value
2008	\$890,119,700	1.26%	\$1,780,239,400
2007	879,002,488	4.81%	1,758,004,976
2006	838,661,200	2.53%	1,677,322,400
2005	817,933,079	0.22%	1,635,866,158
2004	816,137,300	-0.99%	1,632,274,600

State Shared Revenues

State shared sales tax revenues represent about twenty-percent of total General Fund revenue. The City's state shared revenue allocation is made up of two approximately equal 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 statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
2008	\$4,487,698	+0.3%
2007	4,475,462	-1.8%
2006	4,556,801	-0.1%
2005	4,592,852	-1.1%
2004	4,645,348	-5.9%

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax,

Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

For 2009, the City projects \$4,450,000 based on current information available from the state. This is little changed from the \$4,487,698 received during 2008.

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 not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
2008	\$3,199,930	-2.7%
2007	3,288,098	-0.2%
2006	3,297,183	-0.7%
2005	3,319,131	-4.1%
2004	3,459,503	+9.2%

For 2009, the City is projecting no material change in street funds from the State of Michigan.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income stream totaling \$11,268,140 in 2008. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. During 2008, sewer rates were increased (to be effective January 1, 2009) as result of higher wastewater treatment and debt service charges enacted by Muskegon County. Further sewer rate increases may be needed in 2009 due to the potential shutdown of a major industrial sewer customer.

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 ASSETS (DEFICITS)
December 31, 2008

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 12,259,062	\$ 3,318,190	\$ 15,577,252	\$ 62,794
Receivables	10,306,820	3,103,040	13,409,860	645,170
Due from other governmental units	2,627,630	71,019	2,698,649	-
Internal balances	(1,286,178)	1,286,178	-	-
Due from component units	17,863	-	17,863	-
Inventories	11,552	116,710	128,262	-
Prepaid items	405,476	35,074	440,550	-
Total current assets	24,342,225	7,930,211	32,272,436	707,964
NONCURRENT ASSETS				
Restricted assets	-	822,559	822,559	-
Capital assets, net				
Nondepreciable	19,450,718	2,731,783	22,182,501	400,000
Depreciable	58,038,888	57,268,940	115,307,828	2,920,630
Bond issuance costs, net	132,596	72,698	205,294	104,931
Special assessments receivable	1,834,821	-	1,834,821	-
Notes receivable	192,199	-	192,199	-
Total noncurrent assets	79,649,222	60,895,980	140,545,202	3,425,561
Total assets	103,991,447	68,826,191	172,817,638	4,133,525
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,711,569	572,619	2,284,188	43,700
Due to other governmental units	-	399,226	399,226	-
Due to primary government	-	-	-	17,863
Unearned revenue	8,539,929	-	8,539,929	645,170
Bonds and other obligations, due within one year	909,000	1,139,000	2,048,000	300,000
Total current liabilities	11,160,498	2,110,845	13,271,343	1,006,733
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	8,999,807	18,240,658	27,240,465	7,954,288
Total liabilities	20,160,305	20,351,503	40,511,808	8,961,021
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	69,564,935	40,876,621	110,441,556	(1,133,727)
Restricted for:				
Streets and highways	2,216,393	-	2,216,393	-
Debt service	-	822,559	822,559	-
Perpetual care	60,813	-	60,813	-
Expendable	1,280,472	-	1,280,472	-
Non-expendable	10,708,529	6,775,508	17,484,037	(3,693,769)
Unrestricted	83,831,142	48,474,688	132,305,830	(4,827,496)
Total net assets (deficits)	\$ 83,831,142	\$ 48,474,688	\$ 132,305,830	\$ (4,827,496)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended December 31, 2008

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenue		Primary Government		Total	Component units
	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities		
Primary government						
Governmental activities						
Public representation services	\$ 986,696	\$ -	\$ (798,229)	\$ -	\$ (798,229)	\$ -
Administrative services	782,362	1,500	(523,012)	-	(523,012)	-
Financial services	2,292,430	50,000	(1,515,858)	-	(1,515,858)	-
Public safety	13,955,811	68,323	(12,669,872)	-	(12,669,872)	-
Public works	3,019,411	-	(2,609,693)	-	(2,609,693)	-
Highways, streets and bridges	7,265,438	3,167,741	(494,911)	-	(494,911)	-
Community and economic development	3,174,508	2,018,321	(741,853)	-	(741,853)	-
Culture and recreation	2,623,501	61,267	(2,156,714)	-	(2,156,714)	-
General administration	574,955	-	(475,461)	-	(475,461)	-
Interest on long-term debt	324,076	-	(324,076)	-	(324,076)	-
Total governmental activities	34,999,188	5,367,152	(22,309,679)	-	(22,309,679)	-
Business-type activities						
Sewer	5,503,144	-	-	(176,357)	(176,357)	-
Water	5,800,977	-	-	439,083	439,083	-
Marina and Launch Ramp	347,642	-	-	(97,376)	(97,376)	-
Total business-type activities	11,651,763	-	-	165,350	165,350	-
Total primary government	\$ 46,650,951	\$ 5,367,152	(22,309,679)	165,350	(22,144,329)	-
Component units						
Local Development Finance Authority I	\$ -	\$ -	\$ -	-	-	-
Local Development Finance Authority II	-	-	-	-	-	-
Local Development Finance Authority III	-	-	-	-	-	-
Downtown Development Authority	381,787	-	-	-	-	(156,787)
Tax Increment Finance Authority	607,483	-	-	-	-	(607,483)
Brownfield Redevelopment Authority	50,000	-	-	-	-	(50,000)
	17,863	-	-	-	-	(17,863)
Total component units	\$ 1,057,133	\$ -	\$ -	-	-	(832,133)
General revenues						
Property taxes			8,349,341	-	8,349,341	601,404
Income taxes			8,117,566	-	8,117,566	-
Cable franchises			304,812	-	304,812	-
Grants and contributions not restricted to specific programs			4,487,698	-	4,487,698	-
Unrestricted investment earnings			730,142	108,990	839,132	2,936
Miscellaneous			160,460	-	160,460	-
Gain on sale of capital asset			323,048	-	323,048	384,787
Transfers			(40,000)	40,000	-	-
Total general revenues and transfers			22,433,067	148,990	22,582,057	989,127
Change in net assets			123,388	314,340	437,728	156,994
Net assets (deficit) at January 1, 2008			83,707,754	48,160,348	131,868,102	(4,984,490)
Net assets (deficit) at December 31, 2008			\$ 83,831,142	\$ 48,474,688	\$ 132,305,830	\$ (4,827,496)

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
 Governmental Funds
 December 31, 2008

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 3,498,120	-	\$ 5,355,891	\$ 8,854,011
Receivables				
Accounts and loans	425,302	28,194	628,619	1,082,115
Property taxes	5,841,950	-	-	5,841,950
Income taxes	1,008,725	-	-	1,008,725
Special assessments	-	1,114,182	1,059,199	2,173,381
Due from other governmental units	820,181	438,612	1,352,318	2,611,111
Due from other funds	-	-	1,722,200	1,722,200
Due from component units	-	-	17,863	17,863
Prepaid items	204,819	14,870	7,025	226,714
Total assets	<u>\$ 11,799,097</u>	<u>\$ 1,595,858</u>	<u>\$ 10,143,115</u>	<u>\$ 23,538,070</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 549,184	\$ 41,477	\$ 88,118	\$ 678,779
Accrued liabilities	536,698	44,212	46,312	627,222
Due to other funds	-	288,986	1,183,827	1,472,813
Deferred revenue	8,329,490	936,271	1,222,055	10,487,816
Total liabilities	<u>9,415,372</u>	<u>1,310,946</u>	<u>2,540,312</u>	<u>13,266,630</u>
Fund balances				
Reserved for:				
Prepaid items	204,819	14,870	7,025	226,714
Long-term loans receivable	-	-	192,199	192,199
Capital projects	-	-	2,580,714	2,580,714
Perpetual care	10,000	-	1,270,472	1,280,472
Unreserved				
Designated, reported in capital projects funds	-	-	992,736	992,736
Undesignated, reported in				
General Fund	2,168,906	-	-	2,168,906
Special revenue funds	-	270,042	2,498,844	2,768,886
Permanent funds	-	-	60,813	60,813
Total fund balances	<u>2,383,725</u>	<u>284,912</u>	<u>7,602,803</u>	<u>10,271,440</u>
Total liabilities and fund balances	<u>\$ 11,799,097</u>	<u>\$ 1,595,858</u>	<u>\$ 10,143,115</u>	<u>\$ 23,538,070</u>

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 ASSETS**

December 31, 2008

Total fund balance—governmental funds		\$ 10,271,440
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 120,701,318	
Accumulated depreciation	<u>(45,427,826)</u>	75,273,492
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	210,974	
Accumulated amortization	<u>(78,378)</u>	132,596
Other receivables in governmental activities are not reported in the governmental funds.		748,066
Accrued interest in governmental activities is not reported in the governmental funds.		(63,600)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		1,834,821
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(8,461,227)	
Compensated absences	<u>(1,349,324)</u>	(9,810,551)
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 Assets.		
Net assets of governmental activities in the Statement of Net Assets		<u>5,444,878</u>
		<u>\$ 83,831,142</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 December 31, 2008

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
REVENUES				
Taxes	\$ 15,728,859	-	-	\$ 15,728,859
Licenses and permits	1,089,187	-	-	1,089,187
Intergovernmental revenues				
Federal	40,622	1,662,437	2,744,798	4,447,857
State	4,515,399	3,002,489	996,290	8,514,178
Local	50,000	-	-	50,000
Charges for services	2,239,607	87,620	136,748	2,463,975
Fines and forfeitures	559,686	-	10,840	570,526
Interest and rental income	569,937	70,691	220,887	861,515
Other	526,431	248,582	328,338	1,103,351
Total revenues	<u>25,319,728</u>	<u>5,071,819</u>	<u>4,437,901</u>	<u>34,829,448</u>
EXPENDITURES				
Current				
Public representation services	987,229	-	-	987,229
Administrative services	632,513	-	-	632,513
Financial services	2,298,830	-	-	2,298,830
Public safety	13,683,731	-	70,663	13,754,394
Public works	2,831,177	-	-	2,831,177
Highways, streets and bridges	-	5,756,135	3,312,558	9,068,693
Community and economic development	1,077,312	-	-	1,077,312
Culture and recreation	2,378,772	-	15,259	2,394,031
Other governmental functions	462,341	-	100,000	562,341
Debt service				
Principal	45,000	390,000	564,148	999,148
Interest and fees	230,833	6,093	73,506	310,432
Capital outlay	174,755	-	2,644,833	2,819,588
Total expenditures	<u>24,802,493</u>	<u>6,152,228</u>	<u>6,780,967</u>	<u>37,735,688</u>
Excess of revenues over (under) expenditures	517,235	(1,080,409)	(2,343,066)	(2,906,240)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	375,723	375,723
Long-term debt issued	-	-	500,000	500,000
Transfers in	243,904	200,000	1,033,813	1,477,717
Transfers out	(1,298,046)	(3,813)	(107,632)	(1,409,491)
Total other financing sources (uses)	<u>(1,054,142)</u>	<u>196,187</u>	<u>1,801,904</u>	<u>943,949</u>
Net change in fund balances	(536,907)	(884,222)	(541,162)	(1,962,291)
Fund balances at January 1, 2008	2,920,632	1,169,134	8,143,965	12,233,731
Fund balances at December 31, 2008	<u>\$ 2,383,725</u>	<u>\$ 284,912</u>	<u>\$ 7,602,803</u>	<u>\$ 10,271,440</u>

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 December 31, 2008

Net change in fund balances—total governmental funds	\$ (1,962,291)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	\$ (4,038,764)
Capital outlay	<u>1,435,064</u>
Debt proceeds are other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(500,000)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	223,066
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	998,173
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(800)
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(91,832)
Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(167,108)
The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	
Change in net assets of governmental activities	<u>189,116</u>
	<u>\$ 123,388</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
 Proprietary Funds
 December 31, 2008

ASSETS

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	
CURRENT ASSETS				
Cash and investments	\$ -	\$ 3,232,652	\$ 85,538	\$ 3,318,190
Accounts receivable	1,636,899	1,455,389	10,752	3,103,040
Due from other governmental units	-	66,674	4,345	71,019
Inventories	25,694	91,016	-	116,710
Prepaid items	14,021	20,090	963	35,074
Total current assets	1,676,614	4,865,821	101,598	6,644,033
NONCURRENT ASSETS				
Restricted assets	-	822,559	-	822,559
Capital assets				
Land	16,188	103,500	22,562	142,250
Land improvements	-	-	1,888,965	1,888,965
Buildings, improvements and systems	19,154,152	61,732,790	2,322,488	83,209,430
Machinery and equipment	39,722	1,563,598	-	1,603,320
Construction in progress	812,398	1,777,135	-	2,589,533
Less accumulated depreciation	(6,565,912)	(20,812,342)	(2,054,521)	(29,432,775)
Net capital assets	13,456,548	44,364,681	2,179,494	60,000,723
Bond issuance costs, net	-	72,698	-	72,698
Total noncurrent assets	13,456,548	45,259,938	2,179,494	60,895,980
Total assets	15,133,162	50,125,759	2,281,092	67,540,013
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	44,930	326,498	5,781	377,209
Accrued liabilities	29,406	165,211	793	195,410
Due to other governmental units	373,751	25,475	-	399,226
Due to other funds	249,387	-	-	249,387
Bonds and other obligations, due within one year	11,600	1,127,000	400	1,139,000
Total current liabilities	709,074	1,644,184	6,974	2,360,232
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	66,923	18,172,019	1,716	18,240,658
Total liabilities	775,997	19,816,203	8,690	20,600,890
NET ASSETS				
Invested in capital assets, net of related debt	13,456,547	25,240,580	2,179,494	40,876,621
Restricted for debt service	-	822,559	-	822,559
Unrestricted	900,618	4,246,417	92,908	5,239,943
Total net assets	\$ 14,357,165	\$ 30,309,556	\$ 2,272,402	\$ 46,939,123
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				
Net assets of business-type activities				\$ 1,555,565
				\$ 48,474,688

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended December 31, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	
OPERATING REVENUES				
Charges for services	\$ 5,201,800	\$ 6,066,340	\$ 242,787	\$ 11,510,927
Other	124,987	173,720	7,479	306,186
Total operating revenues	<u>5,326,787</u>	<u>6,240,060</u>	<u>250,266</u>	<u>11,817,113</u>
OPERATING EXPENSES				
Administration	330,080	490,694	22,440	843,214
Insurance premiums and claims	-	-	-	-
Wastewater treatment	4,647,049	-	-	4,647,049
Filtration plant operations	-	1,383,957	-	1,383,957
Water distribution	-	1,531,444	-	1,531,444
Other operations	-	-	195,516	195,516
Bad debts	2,214	1,808	-	4,022
Depreciation and amortization	532,656	1,797,889	130,582	2,461,127
Total operating expenses	<u>5,511,999</u>	<u>5,205,792</u>	<u>348,538</u>	<u>11,066,329</u>
Operating income (loss)	<u>(185,212)</u>	<u>1,034,268</u>	<u>(98,272)</u>	<u>750,784</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	11,860	96,075	1,055	108,990
Gain on sale of capital assets	-	-	-	-
Interest expense	(12,550)	(610,479)	-	(623,029)
Total nonoperating revenue (expenses)	<u>(690)</u>	<u>(514,404)</u>	<u>1,055</u>	<u>(514,039)</u>
Income (loss) before transfers	<u>(185,902)</u>	<u>519,864</u>	<u>(97,217)</u>	<u>334,937</u>
Transfers in	-	-	40,000	28,046
Transfers out	-	-	-	(136,272)
Change in net assets	<u>(185,902)</u>	<u>519,864</u>	<u>(57,217)</u>	<u>226,711</u>
Net assets at January 1, 2008	<u>14,543,067</u>	<u>29,789,692</u>	<u>2,329,619</u>	<u>6,753,732</u>
Net assets at December 31, 2008	<u>\$ 14,357,165</u>	<u>\$ 30,309,556</u>	<u>\$ 2,272,402</u>	<u>\$ 6,980,443</u>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				<u>37,595</u>
Change in net assets of business-type activities				<u>\$ 314,340</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
 Proprietary Funds
 For the year ended December 31, 2008

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 4,949,503	\$ 5,890,410	\$ 243,754	\$ 11,083,667	\$ 161,274	
Receipts from interfund services provided	34,868	165,605	-	200,473	7,803,575	
Payments to suppliers	(3,478,874)	(1,454,718)	(103,425)	(5,037,017)	(6,372,465)	
Payments to employees	(751,866)	(1,164,003)	(95,178)	(2,011,047)	(961,276)	
Payments for interfund services used	(620,785)	(681,913)	(21,177)	(1,323,875)	(679,326)	
Net cash provided by (used for) operating activities	132,846	2,755,381	23,974	2,912,201	(48,218)	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	40,000	40,000	28,046	
Transfers out	-	-	-	-	(136,272)	
Interfund borrowing	249,387	-	-	249,387	-	
Net cash provided by (used for) noncapital financing activities	249,387	-	40,000	289,387	(108,226)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of capital assets	(602,806)	(1,768,200)	-	(2,371,006)	(259,430)	
Principal paid on capital debt	(546,278)	(1,080,000)	-	(1,626,278)	-	
Interest paid on capital debt	(12,550)	(600,377)	-	(612,927)	-	
Proceeds from sale of capital assets	-	-	-	-	35,229	
Net cash used for capital and related financing activities	(1,161,634)	(3,448,577)	-	(4,610,211)	(224,201)	
CASH FLOW FROM INVESTING ACTIVITIES						
Investment earnings	11,860	96,075	1,055	108,990	103,129	
Net increase (decrease) in cash and investments	(767,541)	(597,121)	65,029	(1,299,633)	(277,516)	
Cash and investments at January 1, 2008	767,541	4,652,332	20,509	5,440,382	3,682,566	
Cash and investments at December 31, 2008	-	4,055,211	85,538	4,140,749	3,405,050	
Reconciliation of cash and investments to the statement of net assets						
Cash and investments	-	\$ 3,232,652	\$ 85,538	\$ 3,318,190	\$ 3,405,050	
Restricted cash and investments	-	822,559	-	822,559	-	
	-	\$ 4,055,211	\$ 85,538	\$ 4,140,749	\$ 3,405,050	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities						
Operating income (loss)	\$ (185,212)	\$ 1,034,268	\$ (98,272)	\$ 750,784	\$ 203,279	
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities						
Depreciation and amortization expense	532,656	1,797,889	130,582	2,461,127	559,875	
Bad debt expense	2,214	1,808	-	4,022	-	
Change in assets and liabilities						
Receivables, net	(382,477)	(209,527)	(6,512)	(598,516)	(958,397)	
Inventories	3,007	19,575	-	22,582	11,783	
Prepaid items	(1,365)	(1,470)	(232)	(3,067)	(18,649)	
Accounts payable	153,880	114,499	(234)	268,145	138,205	
Accrued liabilities	10,143	(1,661)	(1,358)	7,124	15,686	
Net cash provided by (used for) operating activities	\$ 132,846	\$ 2,755,381	\$ 23,974	\$ 2,912,201	\$ (48,218)	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Fiduciary Funds
 December 31, 2008

	Agency Funds
ASSETS	
Cash and investments	\$ 11,120,832
Receivables	
Accounts	2,767
Property taxes	14,393,066
Total assets	\$ 25,516,665
LIABILITIES	
Accounts payable	\$ 193,101
Due to other governmental units	25,141,666
Deposits held for others	181,898
Total liabilities	\$ 25,516,665

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
December 31, 2008

	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
ASSETS							
CURRENT ASSETS							
Cash and investments	\$ 347	\$ 25,092	\$ 8,753	\$ 14,619	\$ 13,983	\$ -	\$ 62,794
Property taxes receivable	-	-	68,380	518,996	53,773	4,021	645,170
Total current assets	347	25,092	77,133	533,615	67,756	4,021	707,964
NONCURRENT ASSETS							
Capital assets, net							
Nondepreciable	-	-	400,000	-	-	-	400,000
Depreciable	-	-	2,920,630	-	-	-	2,920,630
Net capital assets	-	-	3,320,630	-	-	-	3,320,630
Bond issuance costs, net	-	-	104,931	-	-	-	104,931
Total noncurrent assets	-	-	3,425,561	-	-	-	3,425,561
Total assets	347	25,092	3,502,694	533,615	67,756	4,021	4,133,525
LIABILITIES AND NET ASSETS (DEFICITS)							
CURRENT LIABILITIES							
Accrued liabilities	-	-	33,300	10,400	-	-	43,700
Due to primary government	-	-	-	-	-	17,863	17,863
Deferred revenue	-	-	68,380	518,996	53,773	4,021	645,170
Bonds and other obligations, due within one year	-	-	80,000	220,000	-	-	300,000
Total current liabilities	-	-	181,680	749,396	53,773	21,884	1,006,733
NONCURRENT LIABILITIES							
Bonds and other obligations, less amounts due within one year	-	-	4,479,288	3,475,000	-	-	7,954,288
Total liabilities	-	-	4,660,968	4,224,396	53,773	21,884	8,961,021
NET ASSETS (DEFICITS)							
Invested in capital assets, net of related debt	-	-	(1,133,727)	-	-	-	(1,133,727)
Unrestricted	347	25,092	(24,547)	(3,690,781)	13,983	(17,863)	(3,693,769)
Total net assets (deficits)	\$ 347	\$ 25,092	\$ (1,158,274)	\$ (3,690,781)	\$ 13,983	\$ (17,863)	\$ (4,827,496)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
 Discretely Presented Component Units
 For the year ended December 31, 2008

	Program Revenue	Net (Expense) Revenue and Changes in Net Assets						
		Local Development Authority I	Local Development Authority II	Local Development Authority III	Downtown Development Authority	Increment Finance Authority	Brownfield Redevelopment Authority	Total
Functions/Programs								
Local Development Finance Authority I								
Economic development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Development Finance Authority II								
Economic development	-	-	-	-	-	-	-	-
Local Development Finance Authority III								
Economic development	178,821	-	(178,821)	-	-	-	-	(178,821)
Interest on long-term debt	202,966	-	22,034	-	-	-	-	22,034
Total Local Development Finance Authority III	381,787	-	(156,787)	-	-	-	-	(156,787)
Downtown Development Authority								
Distributions to other taxing authorities	468,641	-	-	(468,641)	-	-	-	(468,641)
Interest on long-term debt	138,842	-	-	(138,842)	-	-	-	(138,842)
Total Downtown Development Authority	607,483	-	-	(607,483)	-	-	-	(607,483)
Tax Increment Finance Authority								
Economic development	50,000	-	-	-	(50,000)	-	-	(50,000)
Brownfield Redevelopment Authority								
Economic development	17,863	-	-	-	-	(17,863)	-	(17,863)
Total discretely presented component units	\$ 1,057,133	\$ -	\$ (156,787)	\$ (607,483)	\$ (50,000)	\$ (17,863)	\$ (832,133)	\$ (4,984,490)
General revenues								
Property taxes	-	-	38,249	505,697	57,458	-	-	601,404
Unrestricted investment income	12	699	1,126	926	173	-	-	2,936
Miscellaneous	-	-	-	384,787	-	-	-	384,787
Total general revenues	12	699	39,375	891,410	57,631	-	-	989,127
Change in net assets	12	699	(117,412)	283,927	7,631	(17,863)	-	156,994
Net assets (deficits) at January 1, 2008	335	24,393	(1,040,862)	(3,974,708)	6,352	-	-	(4,984,490)
Net assets (deficits) at December 31, 2008	\$ 347	\$ 25,092	\$ (1,158,274)	\$ (3,690,781)	\$ 13,983	\$ (17,863)	\$ (4,827,496)	\$ (4,827,496)

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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 government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. 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 government. Each discretely presented component unit has a December 31 fiscal year end.

Blended Component Unit

Building Authority. The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority'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 Authority'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. 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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Reporting Entity—Continued

Discretely Presented Component Units—Continued

Brownfield Redevelopment Authority (BRA). 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 is presented as a governmental fund type.

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 December 31, 2008, 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, 2007, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,205,916
Total liabilities	<u>(164,799)</u>
Total net assets	<u>\$ 5,041,117</u>
Total operating income	\$ 325,031
Total operating expenses	(1,995,453)
Total nonoperating revenues	<u>1,619,065</u>
Change in net assets	<u>\$ (51,357)</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements excepting agency funds which have no measurement focus. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. 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.

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. Only the portion of special assessments receivable due 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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

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.

The City reports the following three major proprietary funds:

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

The Water Fund accounts for user charges and for 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 assets held by the City as an agent for another organization or individual.

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

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 and other charges between the City's water and sewer function 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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

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

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 proprietary 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits 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.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

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.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and investments". Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

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.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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 on each 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. Uncollectible 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 these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2007 state taxable value for real/personal property of the City totaled approximately \$711,134,000 of which approximately \$18,473,000 was captured by the component units. The ad valorem taxes levied consisted of 8.5, 2.5, and .0685 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, and DDA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Restricted Assets

Certain proceeds of the Water Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

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 columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the 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.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-25
Leasehold improvements	10-25
Buildings and improvements	25-50
Water and sewage mains	40-100
Furniture, vehicles and equipment	5-20
Infrastructure	15-50
Shared improvements	20

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—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.

Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

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 2007 financial statements have been reclassified to conform to the 2008 presentation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

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 all special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain public comments.
- c. Prior to September 25, the budget is legally adopted by the City Commission.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission.

The appropriated budget is prepared by fund, function and department. The City Manager may transfer line-item budget amounts within departments. 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. The City Commission made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended December 31, 2008, actual expenditures exceeded appropriations for city attorney by \$49,053, police department by \$138,620 and fire department by \$144,768 in the General Fund. In the Major Street and Trunkline and Local Street funds, total actual expenditures exceeded appropriations by \$420,135 and 891,357, respectively. These over-expenditures were funded with available fund balance.

Fund Deficits

As of December 31, 2008, the BRA Fund had an unreserved fund deficit of \$17,863 and the HOME Fund had an unreserved fund deficit of \$316,838. The deficits will be eliminated through future operations.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2008, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
Money market funds	\$ 20,060,944	1.7	AAA	73.8 %
US Agency obligations	4,073,806	11.9	AAA	15.0
US Treasury notes	<u>3,063,594</u>	<u>10.8</u>	not rated	<u>11.3</u>
Total fair value	<u>\$ 27,198,344</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>4.3</u>		

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% of the City's total portfolio must be in instruments maturing in 30 days or less and the weighted average maturity cannot be over three years. US Agency obligations, federal instrumentality securities and time certificates of deposit cannot have a final maturity exceeding five years, repurchase agreements cannot have a final maturity exceeding one year, commercial paper cannot have a final maturity exceeding 270 days and eligible bankers' acceptances cannot have a final maturity exceeding 180 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% each of the total portfolio. More than 5 percent of the City's investments are in U.S. Agency obligations issued by the Federal Home Loan Bank which comprise 5.61 percent of the City's investments.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE C—DEPOSITS AND INVESTMENTS—Continued

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 December 31, 2008, \$245,799 of the City's bank balance of \$495,799 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 December 31, 2008, restricted cash and investments in the Water Fund of \$822,559 were restricted by bond ordinance.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,371,063	\$ 25,650	\$ -	\$ 12,396,713
Construction in progress	5,051,872	5,104,722	3,102,589	7,054,005
Total capital assets, not being depreciated	17,422,935	5,130,372	3,102,589	19,450,718
Capital assets, being depreciated:				
Land improvements	4,118,319	-	-	4,118,319
Leasehold improvements	304,365	-	-	304,365
Buildings and improvements	20,815,694	150,683	-	20,966,377
Furniture, vehicles and equipment	11,605,170	452,203	205,260	11,852,113
Infrastructure	65,331,684	3,102,589	838,403	67,595,870
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	107,752,133	3,705,475	1,043,663	110,413,945

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
Governmental activities—Continued				
Less accumulated depreciation:				
Land improvements	\$ 383,980	\$ 136,536	\$ -	\$ 520,516
Leasehold improvements	78,153	28,096	-	106,249
Buildings and improvements	12,467,262	436,587	-	12,903,849
Furniture, vehicles and equipment	8,919,960	613,643	198,560	9,335,043
Infrastructure	25,615,612	3,093,063	838,403	27,870,272
Shared improvements	1,360,283	278,845	-	1,639,128
Total accumulated depreciation	<u>48,825,250</u>	<u>4,586,770</u>	<u>1,036,963</u>	<u>52,375,057</u>
Total capital assets, being depreciated, net	<u>58,926,883</u>	<u>(881,295)</u>	<u>6,700</u>	<u>58,038,888</u>
Capital assets, net	<u>\$ 76,349,818</u>	<u>\$ 4,249,077</u>	<u>\$ 3,109,289</u>	<u>\$ 77,489,606</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	2,056,632	2,100,532	1,567,631	2,589,533
Total capital assets, not being depreciated	2,198,882	2,100,532	1,567,631	2,731,783
Capital assets, being depreciated:				
Land improvements	1,888,965	-	-	1,888,965
Buildings and systems	81,641,799	1,567,631	-	83,209,430
Machinery and equipment	1,332,845	270,475	-	1,603,320
Total capital assets, being depreciated	84,863,609	1,838,106	-	86,701,715
Less accumulated depreciation:				
Land improvements	1,599,720	37,609	-	1,637,329
Buildings and systems	24,850,628	2,195,950	-	27,046,578
Machinery and equipment	679,610	69,258	-	748,868
Total accumulated depreciation	<u>27,129,958</u>	<u>2,302,817</u>	<u>-</u>	<u>29,432,775</u>
Total capital assets, being depreciated, net	<u>57,733,651</u>	<u>(464,711)</u>	<u>-</u>	<u>57,268,940</u>
Capital assets, net	<u>\$ 59,932,533</u>	<u>\$ 1,635,821</u>	<u>\$ 1,567,631</u>	<u>\$ 60,000,723</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$	52,978
Public safety		111,910
Public works		74,350
Highways, streets and bridges		3,449,023
Community and economic development		75,717
Culture and recreation		255,663
General administration		7,254
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets		<u>559,875</u>
	\$	<u><u>4,586,770</u></u>

Business-type activities:

Water	\$	1,792,218
Sewer		380,017
Marina and Launch Ramp		<u>130,582</u>
	\$	<u><u>2,302,817</u></u>

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
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:				
Buildings and improvements	<u>704,980</u>	<u>172,648</u>	<u>-</u>	<u>877,628</u>
Total accumulated depreciation	<u>704,980</u>	<u>172,648</u>	<u>-</u>	<u>877,628</u>
Total capital assets, being depreciated, net	<u>3,093,278</u>	<u>(172,648)</u>	<u>-</u>	<u>2,920,630</u>
Capital assets, net	<u><u>\$ 3,493,278</u></u>	<u><u>\$ (172,648)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,320,630</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended December 31, 2008 was as follows:

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-type activities				
Access rights	\$ 1,679,026	\$ -	\$ 1,679,026	\$ -
Less accumulated amortization	<u>1,526,387</u>	<u>152,639</u>	<u>1,679,026</u>	<u>-</u>
Access rights, net	<u>\$ 152,639</u>	<u>\$ (152,639)</u>	<u>\$ -</u>	<u>\$ -</u>

Amortization

Amortization expense was charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended December 31, 2008 was as follows:

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Bond issuance costs	\$ 210,974	\$ -	\$ -	\$ 210,974
Less accumulated amortization	<u>66,509</u>	<u>11,869</u>	<u>-</u>	<u>78,378</u>
Bond issuance costs, net	<u>\$ 144,465</u>	<u>\$ (11,869)</u>	<u>\$ -</u>	<u>\$ 132,596</u>
Business-type activities:				
Bond issuance costs	\$ 270,814	\$ -	\$ -	\$ 270,814
Less accumulated amortization	<u>184,153</u>	<u>13,963</u>	<u>-</u>	<u>198,116</u>
Bond issuance costs, net	<u>\$ 86,661</u>	<u>\$ (13,963)</u>	<u>\$ -</u>	<u>\$ 72,698</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental Activities:

 Interest on long-term debt \$ 11,869

Business-type Activities:

 Water \$ 13,963

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2008 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	Major Street and Trunkline Fund	\$ 288,986
Budget Stabilization Fund	Community Development	
	Block Grant Fund	589,072
Budget Stabilization Fund	HOME Rehabilitation Fund	404,904
Budget Stabilization Fund	Lead Abatement Fund	189,851
Budget Stabilization Fund	Sewer Fund	<u>249,387</u>
		<u>\$ 1,722,200</u>

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

The BRA component unit owes the Budget Stabilization Fund \$17,863 as a result of having a negative position in the City's cash and investment pool.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 243,904	Public Improvement Fund	\$ 50,000
		Cemetery Fund	57,632
		General Insurance Fund	<u>136,272</u>
	<u>243,904</u>		243,904
Major Street and Trunkline Fund	200,000	General Fund	1,298,046
Local Street Fund	480,000		
Budget Stabilization Fund	250,000		
Sidewalk Replacement Fund	150,000		
Public Improvement Fund	150,000		
Marina and Launch Ramp Fund	40,000		
General Insurance Fund	<u>28,046</u>		
	1,298,046		<u>1,298,046</u>
State Grant Fund	<u>3,813</u>	Major Street and Trunkline Fund	<u>3,813</u>
	<u>\$ 1,545,763</u>		<u>\$ 1,545,763</u>

Each year, the General Fund transfers funds to the Major Street and Trunkline Fund, Local Street Fund, Sidewalk Replacement Fund and Public Improvement Fund to finance capital improvements. Other transfers between funds are made to meet grant matching requirements or other operational needs.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ -	\$ 8,216,424
Receivables	113,066	323,505
Special assessments	1,834,821	-
Total deferred revenue for governmental funds	\$ 1,947,887	\$ 8,539,929

NOTE I—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 December 31, 2008.

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008	Due within one year
Governmental activities:					
General obligation debt	\$ 5,383,382	\$ -	\$ 44,025	\$ 5,339,357	\$ 50,000
Intergovernmental					
contractual obligations	1,136,900	500,000	220,000	1,416,900	297,000
Michigan Transportation					
Fund obligations	390,000	-	390,000	-	-
Special assessment obligations	1,545,000	-	290,000	1,255,000	260,000
Installment purchase					
agreement	504,118	-	54,148	449,970	56,000
Compensated absences	1,347,929	1,527,625	1,427,974	1,447,580	246,000
Governmental activity					
long-term liabilities	\$ 10,307,329	\$ 2,027,625	\$ 2,426,147	\$ 9,908,807	\$ 909,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008	Due within one year
Business-type activities:					
Revenue obligation	\$ 20,268,590	\$ -	\$ 1,071,790	\$ 19,196,800	\$ 1,110,000
Intergovernmental contractual obligations	1,221,207	-	1,221,207	-	-
Compensated absences	176,876	165,036	159,054	182,858	29,000
Business-type activity long-term liabilities	<u>\$ 21,666,673</u>	<u>\$ 165,036</u>	<u>\$ 2,452,051</u>	<u>\$ 19,379,658</u>	<u>\$ 1,139,000</u>
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	<u>7,543,719</u>	<u>-</u>	<u>289,431</u>	<u>7,254,288</u>	<u>300,000</u>
Component unit long- term liabilities	<u>\$ 8,543,719</u>	<u>\$ -</u>	<u>\$ 289,431</u>	<u>\$ 8,254,288</u>	<u>\$ 300,000</u>
Governmental activities:					
General obligation debt:					
\$5,400,000 Limited Tax General Obligation Bonds of 2006 payable in annual installments of \$45,000 to \$350,000 through October 1, 2032; interest at 4% to 4.2%					\$ 5,355,000
Less bond discount					(15,643)
Intergovernmental contractual obligations:					
\$1,276,900 Non-interest bearing State of Michigan urban land assembly loan of 1999 payable in annual installments of \$200,000 to \$276,900 through October 31, 2009					276,900
\$700,000 Non-interest bearing State of Michigan urban land assembly loan of 2005 payable in annual installments of \$20,000 to \$120,000 through September 1, 2015					640,000
\$500,000 State of Michigan Brownfield Redevelopment loan of 2008 payable in annual installments of \$54,572 from March 18, 2010 through March 18, 2019; including interest at 2%					500,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Special assessment obligations:

\$1,495,000 Special assessment improvement bonds of 1998; final payment of \$60,000 due April 1, 2009; interest at 4%	\$ 60,000
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\$825,000 Special assessment improvement bonds of 2000 payable in annual installments of \$70,000 to \$85,000 through April 1, 2010; interest at 4.9% to 5%	155,000
---	---------

\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$115,000 to \$150,000 through June 1, 2016; interest at 3.13% to 4.05%	1,040,000
---	-----------

Installment purchase agreement:

\$605,824 Note payable to bank in annual installments of \$54,148 to \$72,658 through April 1, 2015; interest at 3.83%	449,970
--	---------

Compensated absences	8,461,227
	1,447,580
	\$ 9,908,807

Business-type activities:

Revenue obligations:

\$5,465,000 Water supply system bonds of 1993 payable in two installments of \$450,000 from May 1, 2012 through May 1, 2013; interest at 4.5%	\$ 900,000
---	------------

Less bond discount	(7,833)
--------------------	---------

\$9,575,000 Water supply system bonds of 1999 payable in annual installments of \$130,000 to \$800,000 through May 1, 2019; interest at 4.10% to 4.75%	6,175,000
--	-----------

Less bond discount	(40,367)
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\$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$600,000 to \$840,000 through October 1, 2025; interest at 2.13%	12,170,000
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Compensated absences	19,196,800
	182,858
	\$ 19,379,658

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:

Revenue obligations:

\$1,000,000 Non-interest bearing Downtown Development Authority promissory note to Muskegon County payable August 30, 2019	\$ 1,000,000
--	--------------

General obligation debt:

\$4,005,000 Downtown Development Authority tax increment refunding bonds of 2001 payable in annual installments of \$220,000 to \$335,000 through June 1, 2018; interest at 4.2% to 5%	2,695,000
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\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 payable in annual installments of \$80,000 to \$400,000 through November 1, 2025; interest at 3.63% to 4.85%	4,565,000
--	-----------

Less bond discount	(5,712)
	<u>\$ 8,254,288</u>

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

The special assessment bonds are backed by the limited full faith and credit of the City.

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 December 31, 2008 was approximately \$5,917,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE I—LONG-TERM DEBT—Continued

The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 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 shortfall, up to \$75,000 annually. This commitment extends through December 31, 2016.

The City was in compliance in all material respects with all the revenue bond ordinances at December 31, 2008.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2008 follows:

Year ending December 31,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 663,371	\$ 277,183	\$ 1,110,000	\$ 567,463	\$ 300,000	\$ 320,219
2010	393,466	264,040	1,150,000	533,023	310,000	307,811
2011	417,083	261,898	1,185,000	496,787	320,000	294,604
2012	425,632	251,369	1,220,000	458,514	425,000	280,834
2013	434,311	240,350	1,260,000	418,422	500,000	262,268
2014-2018	1,414,505	1,045,433	6,975,000	1,426,121	3,200,000	931,336
2019-2023	1,603,502	830,195	4,680,000	446,657	2,595,000	354,156
2024-2028	1,725,000	503,180	1,665,000	53,231	610,000	44,864
2029-2032	1,400,000	146,650	-	-	-	-
	<u>\$ 8,476,870</u>	<u>\$ 3,820,298</u>	<u>\$ 19,245,000</u>	<u>\$ 4,400,218</u>	<u>\$ 8,260,000</u>	<u>\$ 2,796,092</u>

Annual debt service requirements to maturity by type of debt as of December 31, 2008 follows:

Year ending December 31,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2009	\$ 267,345	\$ 620,219	\$ 1,677,463	\$ -
2010	285,345	617,811	1,683,023	-
2011	282,545	614,604	1,681,787	-
2012	279,745	705,834	1,678,514	-
2013	276,945	762,268	1,678,422	-
2014-2018	1,342,725	4,131,336	8,401,121	-
2019-2023	2,379,125	1,949,156	5,126,657	1,000,000
2024-2028	2,228,180	654,864	1,718,231	-
2029-2032	1,546,650	-	-	-
	<u>\$ 8,888,605</u>	<u>\$ 10,056,092</u>	<u>\$ 23,645,218</u>	<u>\$ 1,000,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE I—LONG-TERM DEBT—Continued

Year ending December 31,	<u>Intergovernmental</u> Governmental activities	<u>Installment</u> <u>Purchase</u> <u>Agreement</u> Governmental activities	<u>Special</u> <u>Assessment</u> Governmental activities
2009	\$ 296,900	\$ 72,624	\$ 303,685
2010	74,572	72,838	224,751
2011	174,572	73,059	148,805
2012	174,572	73,291	149,393
2013	174,572	73,534	149,610
2014-2018	512,859	147,835	456,519
2019-2023	54,572	-	-
2024-2028	-	-	-
2029-2032	-	-	-
	<u>\$ 1,462,619</u>	<u>\$ 513,181</u>	<u>\$ 1,432,763</u>

NOTE J—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of December 31, 2008 were as follows:

Public Improvement Fund		
Designated for fire equipment replacement	\$ 807,062	
Designated for Pere Marquette Park improvements	<u>35,674</u>	
	842,736	
State Grants Fund		
Designated for Smither Ryerson grant match	<u>150,000</u>	
	<u>\$ 992,736</u>	

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE K—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 \$100,000 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 2008 and 2007 were as follows:

Year ended December 31,	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2008	\$ 44,125	\$ 269,792	\$ 133,564	\$ 180,353
2007	90,394	108,961	155,230	44,125

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 \$350,000 per covered individual's lifetime. As of December 31, 2008, the claims liability including incurred but not reported claims was \$18,875. 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 2008 and 2007 were as follows:

Year ended December 31,	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2008	\$ 20,735	\$ 1,055,901	\$ 1,057,761	\$ 18,875
2007	103,901	1,350,547	1,433,713	20,735

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE K—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

At December 31, 2008, the City had entered into various agreements for construction projects and capital purchases. Below is a summary of those agreements:

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
General	Police department men's locker room	\$ -	\$ 92,474
Public Improvement	Richard's Park building demolition	-	82,600
Water	Radio meter reading devices	-	1,240,000
Equipment	New backhoe	-	65,810

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2012 with the option by the tenant to renew the term of the lease for five successive periods of five years each. The City received rental income of \$45,450 for the year ended December 31, 2008. The future minimum rental income for this lease is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2009	\$ 32,171
2010	34,396
2011	34,058
2012	<u>16,860</u>
	<u>\$ 117,485</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 December 31, 2008

NOTE L—PENSION PLANS

Defined Benefit Pension Plan

Plan Description. The City has an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 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. City employees are required to contribute 5 to 6 percent to the Plan depending on employee contract. The City is required to contribute at an actuarially-determined rate depending upon employee group from 4.7 to 10.13 percent of annual covered payroll depending on the plan. The contributions requirements of plan members and the City are established and may be amended by MERS.

Annual Pension Cost. For the year ended December 31, 2008, the City's annual pension cost was approximately \$1,167,000 was equal to the City's required and actual contribution.

Trend Information

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/07	\$ 819,000	100 %	\$ -
12/31/08	1,167,000	100	-

The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years which will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Funding Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 104 percent funded. The actuarial accrued liability for benefits was approximately \$83,118,000, and the actuarial value of assets was approximately \$86,157,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately a negative \$3,039,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$12,684,000, and the ratio of the UAAL to the covered payroll was a negative 24 percent due to the plan being overfunded.

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

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS and administered by the ICMA Retirement Corporation (ICMA), an independent third party. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments. Depending on employee group, the Plan covers all City employees hired after January 2005 to July 2006 and those hired earlier who elected to convert from the defined benefit plan. The City is required to contribute 3 percent to 10 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 December 31, 2008, City and employee contributions were approximately \$78,000 and \$42,000, respectively.

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. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

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—CONTINUED
 December 31, 2008

NOTE M—OTHER POST-EMPLOYMENT BENEFITS

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 3.9 to 9.4 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.

Annual OPEB Cost. For the year ended December 31, 2008, the City's OPEB cost (expense) of approximately \$1,476,000 was equal to the City's ARC and actual contribution.

Trend Information

<u>Year ended</u>	<u>Approximate Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net ARC Obligation</u>
12/31/07	\$ 1,326,000	100 %	\$ -
12/31/08	1,476,000	100	-

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2008

NOTE M—OTHER POST-EMPLOYMENT BENEFITS—Continued

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates assume include a 4.5 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, 2007 is 30 years.

Funded Status and Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 46.5 percent funded. The actuarial accrued liability for benefits was approximately \$29,722,000, and the actuarial value of assets was approximately \$13,831,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$15,891,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,290,000, and the ratio of the UAAL to the covered payroll was 120 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.

NOTE N—SUBSEQUENT EVENTS

Subsequent to year-end, the City approved various contracts for street improvements, vehicle purchases, and park improvements for approximately \$357,000, \$194,000, and \$49,000, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008		Variance with final budget- positive (negative)	2007
	Budgeted amounts			
	Original	Final		
REVENUES				
Taxes				
City income tax	\$ 6,900,000	\$ 7,750,000	\$ (55,220)	\$ 7,618,461
Property taxes	7,708,000	7,708,000	(41,355)	7,345,550
Industrial facilities taxes	270,731	255,455	20,748	364,628
Payments in lieu of taxes	89,000	91,225	-	91,393
Delinquent chargeback collected	10,000	2,000	(1,994)	-
Total taxes	14,977,731	15,806,680	(77,821)	15,420,032
Licenses and permits				
Business licenses	33,000	32,000	314	32,025
Liquor licenses	35,000	38,957	-	37,000
Cable TV fees	300,000	300,000	4,812	297,200
Rental property registration	100,000	55,000	6,600	82,335
Burial permits	120,000	105,000	(18,485)	117,703
Building permits	250,000	360,000	(6,958)	348,349
Electrical permits	95,000	95,000	3,914	106,607
Plumbing permits	40,000	41,000	711	34,540
Mechanical permits	52,500	67,000	1,002	56,016
Cat licenses	2,500	2,500	815	3,740
Police gun registration	-	-	5	3
Total licenses and permits	1,028,000	1,096,457	(7,270)	1,115,518
Intergovernmental revenues				
Federal grants	45,718	46,173	(5,551)	84,162
State				
Grants	28,000	27,702	(1)	18,373
State shared revenue	4,487,972	4,487,698	25,064	4,475,462
Total intergovernmental revenues - State	4,515,972	4,490,336	25,063	4,493,835
Local	50,000	50,000	-	60,000

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008			2007		
	Budgeted amounts		Actual	Variance with final budget- positive (negative)	Actual	
	Original	Final				
Charges for services	\$	278,634	\$	315,261	\$	212,530
Tax administration fees		180,000		180,000		180,000
Utility administration fees		13,000		12,006		22,042
Reimbursement for elections		1,016,979		1,021,500		1,024,932
Indirect cost reimbursements		4,000		4,245	4,521	5,870
Site plan review fee		27,400		21,233	(4,767)	38,182
Sale of cemetery lots		94,000		97,255	(21,745)	120,470
Police miscellaneous		45,000		39,375	(5,625)	43,234
Police impound fees		300		290	(10)	220
Landlord's alert fee		80,000		127,589	47,589	87,601
Fire protection-state property		8,000		8,360	60	10,362
Zoning fees		3,500		5,550	(450)	3,115
Clerk fees		10,000		7,830	330	8,240
Clerk fees - passport fees		10,000		11,711	(2,289)	16,411
Tax abatement application fees		90,000		43,279	(6,721)	61,277
Treasurer fees		12,000		10,415	(1,585)	12,525
False alarm fees		22,000		19,282	(2,718)	20,536
Miscellaneous cemetery income		9,000		10,149	149	9,254
Senior transit program fees		7,000		14,699	(301)	3,494
Fire miscellaneous		75,000		81,702	4,702	84,735
Sanitation stickers		70,000		63,733	(18,267)	70,987
Lot cleanup fees		70,000		85,905	15,905	55,484
Reimbursements - lot mowing and demolitions		120,000		15,278	(113,066)	92,041
Special events reimbursements		45,000		42,960	(2,040)	41,457
Recreation program fees						
Total charges for services		2,290,813		2,239,607	(69,656)	2,224,999

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008		Variance with final budget- positive (negative)	2007
	Budgeted amounts			
	Original	Final		
Fines and forfeitures				
Income tax - penalty and interest	\$ 200,000	\$ 275,000	\$ 284,629	\$ 240,315
Late fees on current taxes	75,000	40,000	28,158	38,931
Interest on late invoices	2,000	2,000	1,774	2,151
Parking fines	120,000	120,000	90,360	113,354
Court fines	175,000	185,000	154,765	190,651
Total fines and forfeitures	572,000	622,000	559,686	585,402
Interest and rental income				
Investment earnings	305,000	260,000	374,527	456,224
Flea market	29,000	29,000	27,880	22,064
Farmers' market	32,000	41,000	39,519	40,325
City right of way rental	4,400	6,800	6,800	4,400
Advertising	2,000	123	123	-
Fire station lease - Central Dispatch	35,000	43,000	45,450	6,180
Parking rentals	2,500	2,800	2,800	2,800
McGraft park rentals	45,000	45,000	39,043	42,114
Other park rentals	29,000	35,000	33,795	30,920
Total interest and rental income	483,900	462,723	569,937	605,027
Other				
Sale of land and assets	1,000	17,500	14,488	-
Police sale and auction proceeds	1,500	300	277	-
CDBG program reimbursements	339,169	334,669	329,756	225,149
Fisherman's Landing reimbursement	10,000	14,900	15,066	-
Contributions	11,000	51,000	50,224	50,499
Contribution - Veteran's Park maintenance	17,250	18,000	15,400	18,328
Community Foundation for Muskegon County	-	34,857	37,543	3,000
Miscellaneous reimbursements	1,000	-	-	-
Miscellaneous and sundry	15,000	51,000	63,677	53,794
Total other	395,919	522,226	526,431	350,770
Total revenues	24,360,053	25,405,858	25,319,728	24,939,745

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008		Variance with final budget- positive (negative)	2007	
	Budgeted amounts			Actual	Actual
	Original	Final			
EXPENDITURES					
Current					
Public representation services					
City commission	\$ 83,128	\$ 88,500	\$ 86,777	\$ 80,462	
City promotions and public relations	10,935	11,235	8,183	11,696	
City manager	218,527	229,024	225,563	213,848	
Contributions to outside agencies	184,324	189,403	186,153	180,880	
City attorney	426,338	431,500	480,553	440,434	
Total public representation services	923,252	949,662	987,229	927,320	
Administrative services					
Administration	130,461	46,416	38,672	126,444	
City clerk	333,051	333,251	319,548	277,610	
Civil service	180,555	187,777	186,372	163,761	
Julia Hackley internships	-	8,000	7,988	5,374	
Affirmative action	77,924	81,441	79,933	71,724	
Total administrative services	721,991	656,885	632,513	644,913	
Financial services					
Finance administration	431,098	439,804	445,660	423,512	
Assessing	431,366	466,366	470,280	459,837	
Arena administration	235,000	241,850	241,602	269,434	
Income tax administration	380,443	404,971	404,309	373,433	
Information systems	358,656	368,688	347,762	364,246	
City treasurer	418,156	411,522	389,217	341,057	
Total financial services	2,254,719	2,333,201	2,298,830	2,231,519	
Public safety					
Police department	8,412,756	8,667,000	8,805,620	8,235,772	
Fire department	3,471,316	3,691,836	3,836,604	3,652,524	
Fire safety inspections	1,011,807	1,048,408	1,041,507	966,136	
Total public safety	12,895,879	13,407,244	13,683,731	12,854,432	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008		Variance with final budget- positive (negative)	2007	
	Budgeted amounts			Actual	Actual
	Original	Final			
Public works					
Street lighting	\$ 634,000	\$ 634,000	\$ 643,477	\$ (9,477)	\$ 593,486
Community event support	31,100	38,600	32,345	6,255	28,837
Senior citizen transit	61,368	61,368	59,621	1,747	59,824
General sanitation	1,653,479	1,656,864	1,628,953	27,911	1,649,488
Recycling	168,179	168,179	164,568	3,611	163,699
Storm water management	16,991	17,827	17,754	73	16,991
City hall maintenance	267,714	283,375	284,459	(1,084)	256,581
Total public works	2,832,831	2,860,213	2,831,177	29,036	2,768,906
Community and economic development					
Planning, zoning and economic development	505,274	528,250	523,927	4,323	462,113
Environmental services	391,382	413,500	403,385	10,115	332,766
Edison Landing subsidy	150,000	150,000	150,000	-	100,000
Total community and economic development	1,046,656	1,091,750	1,077,312	14,438	894,879
Culture and recreation					
Parks maintenance	1,321,663	1,434,182	1,455,040	(20,858)	1,340,824
McGraft park maintenance	55,200	53,750	58,134	(4,384)	46,376
General and inner city recreation programs	276,612	299,648	314,042	(14,394)	264,522
Cemeteries maintenance	527,196	527,196	498,350	28,846	545,975
Graffiti removal	4,644	6,144	3,940	2,204	3,213
Parking operations	7,269	7,269	5,431	1,838	6,605
Farmers' market and flea market	46,500	44,700	43,835	865	43,578
Total culture and recreation	2,239,084	2,372,889	2,378,772	(5,883)	2,251,093
Other governmental functions					
Insurance premiums	368,834	391,978	386,191	5,787	350,385
Other	400,000	200,000	76,150	123,850	-
Total other governmental functions	768,834	591,978	462,341	129,637	350,385

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2008
 (with comparative actual amounts for the year ended December 31, 2007)

	2008			2007	
	Budgeted amounts Original	Final	Actual	Variance with final budget- positive (negative)	Actual
Debt service					
Principal	\$ 45,000	\$ 45,000	\$ 45,000	\$ -	\$ -
Interest and fees	219,145	230,833	230,833	-	208,859
Total debt service	264,145	275,833	275,833	-	208,859
Capital outlay	134,000	177,572	174,755	2,817	65,578
Total expenditures	24,081,391	24,717,227	24,802,493	(85,266)	23,197,884
Excess of revenues over expenditures	278,662	688,631	517,235	(171,396)	1,741,861
OTHER FINANCING SOURCES (USES)					
Transfers in	345,000	246,272	243,904	(2,368)	91,658
Transfers out	(698,046)	(1,298,046)	(1,298,046)	-	(1,602,926)
Total other financing sources (uses)	(353,046)	(1,051,774)	(1,054,142)	(2,368)	(1,511,268)
Net change in fund balance	\$ (74,384)	\$ (363,143)	(536,907)	\$ (173,764)	230,593
Fund balance at beginning of year			2,920,632		2,690,039
Fund balance at end of year			\$ 2,383,725		\$ 2,920,632

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 December 31, 2008

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal	\$ 1,623,000	\$ 1,623,000	\$ 1,662,437	\$ 39,437
State	2,930,818	3,240,818	3,002,489	(238,329)
Charges for services	40,000	75,000	87,620	12,620
Investment earnings	100,000	50,000	70,691	20,691
Other	250,000	250,000	248,582	(1,418)
Total revenues	4,943,818	5,238,818	5,071,819	(166,999)
EXPENDITURES				
Current				
Highways, streets and bridges	4,714,904	5,336,000	5,756,135	(420,135)
Debt service				
Principal	390,000	390,000	390,000	-
Interest and fees	6,093	6,093	6,093	-
Total expenditures	5,110,997	5,732,093	6,152,228	(420,135)
Excess of revenues under expenditures	(167,179)	(493,275)	(1,080,409)	(587,134)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	200,000	200,000	-
Transfers out	-	-	(3,813)	(3,813)
Total other financing sources (uses)	-	200,000	196,187	(3,813)
Net change in fund balance	\$ (167,179)	\$ (293,275)	(884,222)	\$ (590,947)
Fund balance at January 1, 2008			1,169,134	
Fund balance at December 31, 2008			\$ 284,912	

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

City of Muskegon
 Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS
 For the year ended December 31, 2008

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) PENSION PLAN
 SCHEDULE OF FUNDING PROGRESS**

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07	\$ 86,157	\$ 83,118	\$ (3,039)	104 %	\$ 12,684	(24) %

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) OTHER POSTEMPLOYMENT BENEFITS PLAN
 SCHEDULE OF FUNDING PROGRESS**

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07	\$ 13,831	\$ 29,722	\$ 15,891	46.5 %	\$ 13,290	120 %

Additional actuarial data is not available from MERS 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.

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

Budget Stabilization – to account for funds appropriated from the City's General Fund for the purpose of mitigating adverse affects on the City's budget from downturns in the business cycle.

Farmers' Market Improvement – to account for funds allocated for maintenance and improvements to the City's farmers' market facility.

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 facilities 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.

Lead Abatement – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of abatement of lead from homes in the City.

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
 December 31, 2008

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
ASSETS				
Cash and investments	\$ 5,355,891	\$ 455,945	\$ 3,591,005	\$ 1,308,941
Receivables				
Accounts and loans (net of allowance for uncollectibles)	628,619	-	606,275	22,344
Special assessments	1,059,199	655,473	403,726	-
Due from other governmental units	1,352,318	378,360	973,958	-
Due from other funds	1,722,200	1,722,200	-	-
Due from component units	17,863	17,863	-	-
Prepaid items	7,025	7,025	-	-
Total assets	\$ 10,143,115	\$ 3,236,866	\$ 5,574,964	\$ 1,331,285
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 88,118	\$ 59,795	\$ 28,323	\$ -
Accrued liabilities	46,312	35,651	10,661	-
Due to other funds	1,183,827	-	1,183,827	-
Deferred revenue	1,222,055	635,551	586,504	-
Total liabilities	2,540,312	730,997	1,809,315	-
Fund balances				
Reserved for:				
Prepaid items	7,025	7,025	-	-
Long-term loans receivable	192,199	-	192,199	-
Capital projects	2,580,714	-	2,580,714	-
Perpetual care	1,270,472	-	-	1,270,472
Unreserved				
Designated, reported in capital projects funds	992,736	-	992,736	-
Undesignated, reported in				
Special revenue funds	2,498,844	2,498,844	-	-
Permanent funds	60,813	-	-	60,813
Total fund balances	7,602,803	2,505,869	3,765,649	1,331,285
Total liabilities and fund balances	\$ 10,143,115	\$ 3,236,866	\$ 5,574,964	\$ 1,331,285

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Other Governmental Funds
 For the year ended December 31, 2008

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 2,744,798	\$ 750,927	\$ 1,993,871	\$ -
State	996,290	967,402	28,888	-
Charges for services	136,748	1,045	115,396	20,307
Fines and forfeitures	10,840	10,840	-	-
Investment earnings	220,887	47,655	139,201	34,031
Other	328,338	82,547	245,791	-
Total revenues	4,437,901	1,860,416	2,523,147	54,338
EXPENDITURES				
Current				
Public safety	70,663	70,663	-	-
Highways, streets and bridges	3,312,558	3,312,558	-	-
Culture and recreation	15,259	15,259	-	-
Other governmental functions	100,000	-	100,000	-
Debt service				
Principal	564,148	-	564,148	-
Interest and fees	73,506	-	73,506	-
Capital outlay	2,644,833	-	2,644,833	-
Total expenditures	6,780,967	3,398,480	3,382,487	-
Excess of revenues over (under) expenditures	(2,343,066)	(1,538,064)	(859,340)	54,338
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	375,723	-	375,723	-
Long-term debt issued	500,000	-	500,000	-
Transfers in	1,033,813	730,000	303,813	-
Transfers out	(107,632)	-	(50,000)	(57,632)
Total other financing sources (uses)	1,801,904	730,000	1,129,536	(57,632)
Net change in fund balances	(541,162)	(808,064)	270,196	(3,294)
Fund balances at January 1, 2008	8,143,965	3,313,933	3,495,453	1,334,579
Fund balances at December 31, 2008	7,602,803	2,505,869	3,765,649	1,331,285

City of Muskegon
COMBINING BALANCE SHEET
 Other Special Revenue Funds
 December 31, 2008

	Total other special revenue funds	Local Street	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
ASSETS						
Cash and investments	\$ 455,945	\$ 81,632	\$ 86,769	\$ 259,937	\$ 17,565	\$ 10,042
Special assessments receivable	655,473	655,473	-	-	-	-
Due from other governmental units	378,360	378,360	-	-	-	-
Due from other funds	1,722,200	-	-	1,722,200	-	-
Due from component units	17,863	-	-	17,863	-	-
Prepaid items	7,025	7,025	-	-	-	-
Total assets	\$ 3,236,866	\$ 1,122,490	\$ 86,769	\$ 2,000,000	\$ 17,565	\$ 10,042
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 59,795	\$ 54,882	\$ 4,913	\$ -	\$ -	\$ -
Accrued liabilities	35,651	35,651	-	-	-	-
Deferred revenue	635,551	635,551	-	-	-	-
Total liabilities	730,997	726,084	4,913	-	-	-
Fund balances						
Reserved for prepaid items	7,025	7,025	-	-	-	-
Unreserved	2,498,844	389,381	81,856	2,000,000	17,565	10,042
Total fund balances	2,505,869	396,406	81,856	2,000,000	17,565	10,042
Total liabilities and fund balances	\$ 3,236,866	\$ 1,122,490	\$ 86,769	\$ 2,000,000	\$ 17,565	\$ 10,042

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Special Revenue Funds
 For the year ended December 31, 2008

	Total other special revenue funds	Local Street	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
REVENUES						
Intergovernmental revenues						
Federal	\$ 750,927	\$ 747,927	\$ -	\$ -	\$ -	\$ 3,000
State	967,402	965,402	-	-	-	2,000
Charges for services	1,045	-	-	-	-	1,045
Fines and forfeitures	10,840	-	10,840	-	-	-
Investment earnings	47,655	43,178	3,518	-	710	249
Other	82,547	82,547	-	-	-	-
Total revenues	<u>1,860,416</u>	<u>1,839,054</u>	<u>14,358</u>	<u>-</u>	<u>710</u>	<u>6,294</u>
EXPENDITURES						
Current						
Public safety	70,663	-	70,663	-	-	-
Highways, streets and bridges	3,312,558	3,312,558	-	-	-	-
Culture and recreation	15,259	-	-	-	9,900	5,359
Total expenditures	<u>3,398,480</u>	<u>3,312,558</u>	<u>70,663</u>	<u>-</u>	<u>9,900</u>	<u>5,359</u>
Excess of revenues over (under) expenditures	(1,538,064)	(1,473,504)	(56,305)	-	(9,190)	935
OTHER FINANCING SOURCES						
Transfers in	730,000	480,000	-	250,000	-	-
Net change in fund balances	(808,064)	(993,504)	(56,305)	250,000	(9,190)	935
Fund balances at January 1, 2008	3,313,933	1,389,910	138,161	1,750,000	26,755	9,107
Fund balances at December 31, 2008	<u>\$ 2,505,869</u>	<u>\$ 396,406</u>	<u>\$ 81,856</u>	<u>\$ 2,000,000</u>	<u>\$ 17,565</u>	<u>\$ 10,042</u>

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 Other Special Revenue Funds
 For the year ended December 31, 2008

	Local Street		Criminal Forfeitures		Budget Stabilization				
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES									
Intergovernmental revenues									
Federal	\$ 71,927	\$ 747,927	\$ 676,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	818,344	965,402	147,058	-	-	-	-	-	-
Charges for services	5,000	-	(5,000)	-	-	-	-	-	-
Fines and forfeitures	-	-	-	16,000	10,840	(5,160)	-	-	-
Investment earnings	25,000	43,178	18,178	3,000	3,518	518	-	-	-
Other	120,000	82,547	(37,453)	-	-	-	-	-	-
Total revenues	1,040,271	1,839,054	798,783	19,000	14,358	(4,642)	-	-	-
EXPENDITURES									
Current									
Public safety	-	-	-	63,000	70,663	(7,663)	-	-	-
Highways, streets and bridges	2,421,201	3,312,558	(891,357)	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Total expenditures	2,421,201	3,312,558	(891,357)	63,000	70,663	(7,663)	-	-	-
Excess of revenues over (under) expenditures	(1,380,930)	(1,473,504)	(92,574)	(44,000)	(56,305)	(12,305)	-	-	-
OTHER FINANCING SOURCES									
Transfers in	480,000	480,000	-	-	-	-	250,000	250,000	-
Net change in fund balances	\$ (900,930)	\$ (993,504)	\$ (92,574)	\$ (44,000)	\$ (56,305)	\$ (12,305)	\$ 250,000	\$ 250,000	\$ -
Fund balances at January 1, 2008		1,389,910			138,161			1,750,000	
Fund balances at December 31, 2008	\$ -	\$ 396,406		\$ -	\$ 81,856		\$ 250,000	\$ 2,000,000	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 Other Special Revenue Funds
 For the year ended December 31, 2008

	Farmers' Market Improvement			Tree Replacement		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES						
Intergovernmental revenues						
Federal	\$ -	\$ -	\$ -	\$ 3,000	\$ 3,000	\$ -
State	-	-	-	2,000	2,000	-
Charges for services	-	-	-	400	1,045	645
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	700	710	10	500	249	(251)
Other	-	-	-	-	-	-
Total revenues	700	710	10	5,900	6,294	394
EXPENDITURES						
Current						
Public safety	-	-	-	-	-	-
Highways, streets and bridges	-	-	-	-	-	-
Culture and recreation	13,000	9,900	3,100	5,900	5,359	541
Total expenditures	13,000	9,900	3,100	5,900	5,359	541
Excess of revenues over (under) expenditures	(12,300)	(9,190)	3,110	-	935	935
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	-	-
Net change in fund balances	<u>(12,300)</u>	<u>(9,190)</u>	<u>\$ 3,110</u>	<u>-</u>	<u>935</u>	<u>\$ 935</u>
Fund balances at January 1, 2008		26,755			9,107	
Fund balances at December 31, 2008	\$	<u>17,565</u>	\$	<u>10,042</u>		

City of Muskegon
COMBINING BALANCE SHEET
 Other Capital Projects Funds
 December 31, 2008

	Total other capital projects funds	Public Improvement	Sidewalk Replacement	Michicon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement
ASSETS										
Cash and investments	\$ 3,591,005	\$ 1,981,268	\$ 885,515	\$ 216,137	\$ 117,957	\$ -	\$ 289,535	\$ -	\$ 100,593	\$ -
Receivables										
Accounts and loans (net of allowance for uncollectibles)	606,275	6,267	-	-	20,946	405,123	171,253	-	2,686	-
Special assessments	403,726	-	403,726	-	-	-	-	-	-	-
Due from other governmental units	973,958	-	-	-	-	478,803	188,759	88,727	-	217,669
Total assets	\$ 5,574,964	\$ 1,987,535	\$ 1,289,241	\$ 216,137	\$ 138,903	\$ 883,926	\$ 649,547	\$ 88,727	\$ 103,279	\$ 217,669
LIABILITIES AND FUND BALANCES (DEFICIT)										
Liabilities										
Accounts payable	\$ 28,323	\$ 1,409	\$ -	\$ -	\$ -	\$ 467	\$ -	\$ 153	\$ -	\$ 26,294
Accrued liabilities	10,661	-	-	-	-	8,629	-	508	-	1,524
Due to other funds	1,183,827	-	-	-	-	589,072	-	404,904	-	189,851
Deferred revenue	586,504	1,000	299,746	-	-	285,758	-	-	-	-
Total liabilities	1,809,315	2,409	299,746	-	-	883,926	-	405,565	-	217,669
Fund balances (deficit)										
Reserved for:										
Long-term loans receivable	192,199	-	-	-	20,946	-	171,253	-	-	-
Capital projects	2,580,714	1,142,390	989,495	216,137	117,957	-	328,294	(316,838)	103,279	-
Unreserved										
Designated for approved projects	992,736	842,736	-	-	-	-	150,000	-	-	-
Total fund balances (deficit)	3,765,649	1,985,126	989,495	216,137	138,903	-	649,547	(316,838)	103,279	-
Total liabilities and fund balances (deficit)	\$ 5,574,964	\$ 1,987,535	\$ 1,289,241	\$ 216,137	\$ 138,903	\$ 883,926	\$ 649,547	\$ 88,727	\$ 103,279	\$ 217,669

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Other Capital Projects Funds
 For the year ended December 31, 2008

	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	Lead Abatement
REVENUES										
Intergovernmental revenues										
Federal	\$ 1,993,871	\$ -	\$ -	\$ -	\$ -	\$ 870,951	\$ -	\$ 219,254	\$ -	\$ 903,666
State	28,888	-	-	-	-	-	28,888	-	-	-
Charges for services	115,396	80,087	-	-	-	-	-	-	35,309	-
Investment earnings	139,201	76,446	50,225	6,034	2,921	1,118	-	-	2,457	-
Other	245,791	-	120,301	-	37,592	11,473	50,000	-	-	26,425
Total revenues	2,523,147	156,533	170,526	6,034	40,513	883,542	78,888	219,254	37,766	930,091
EXPENDITURES										
Current										
Other governmental functions	100,000	100,000	-	-	-	-	-	-	-	-
Debt service										
Principal	564,148	274,148	290,000	-	-	-	-	-	-	-
Interest and fees	73,506	18,271	55,235	-	-	-	-	-	-	-
Capital outlay	2,644,833	310,056	3,381	-	22,866	943,038	83,256	340,934	11,211	930,091
Total expenditures	3,382,487	702,475	348,616	-	22,866	943,038	83,256	340,934	11,211	930,091
Excess of revenues over (under) expenditures	(859,340)	(545,942)	(178,090)	6,034	17,647	(59,496)	(4,368)	(121,680)	26,555	-
OTHER FINANCING SOURCES (USES)										
Proceeds from sale of capital assets	375,723	280,031	-	-	-	59,496	-	36,196	-	-
Long-term debt issued	500,000	-	-	-	-	-	500,000	-	-	-
Transfers in	303,813	150,000	150,000	-	-	-	3,813	-	-	-
Transfers out	(50,000)	(50,000)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	1,129,536	380,031	150,000	-	-	59,496	503,813	36,196	-	-
Net change in fund balances	270,196	(165,911)	(28,090)	6,034	17,647	-	499,445	(85,484)	26,555	-
Fund balances (deficit) at January 1, 2008	3,495,453	2,151,037	1,017,585	210,103	121,256	-	150,102	(231,354)	76,724	-
Fund balances (deficit) at December 31, 2008	\$ 3,765,649	\$ 1,985,126	\$ 989,495	\$ 216,137	\$ 138,903	\$ -	\$ 649,547	\$ (316,838)	\$ 103,279	\$ -

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 ASSETS
Internal Service Funds
December 31, 2008

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 3,405,050	\$ 132,074	\$ 2,472,676	\$ 325,669	\$ 474,631
Accounts receivable	1,592,669	3,290	15,701	1,573,678	-
Due from other governmental units	16,519	-	-	16,519	-
Inventories	11,552	-	11,552	-	-
Prepaid items	178,762	1,312	19,612	156,282	1,556
Total current assets	5,204,552	136,676	2,519,541	2,072,148	476,187
NONCURRENT ASSETS					
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	121,648	-	-	-	121,648
Buildings and improvements	1,559,334	-	-	-	1,559,334
Machinery and equipment	7,417,363	26,355	7,356,319	-	34,689
Less accumulated depreciation	(6,947,231)	(26,355)	(5,888,067)	-	(1,032,809)
Total noncurrent assets	2,216,114	-	1,468,252	-	747,862
Total assets	7,420,666	136,676	3,987,793	2,072,148	1,224,049
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	300,622	2,447	71,708	199,688	26,779
Accrued liabilities	41,345	10,972	21,272	1,037	8,064
Bonds and other obligations, due within one year	16,000	3,800	8,000	200	4,000
Total current liabilities	357,967	17,219	100,980	200,925	38,843
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	82,256	17,763	42,369	1,088	21,036
Total liabilities	440,223	34,982	143,349	202,013	59,879
NET ASSETS					
Invested in capital assets	2,216,114	-	1,468,252	-	747,862
Unrestricted	4,764,329	101,694	2,376,192	1,870,135	416,308
Total net assets	6,980,443	\$ 101,694	\$ 3,844,444	\$ 1,870,135	\$ 1,164,170

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Internal Service Funds
 For the year ended December 31, 2008

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 7,803,575	\$ 457,581	\$ 2,703,727	\$ 4,060,997	\$ 581,270
Other	92,824	2,979	82,079	450	7,316
Total operating revenues	<u>7,896,399</u>	<u>460,560</u>	<u>2,785,806</u>	<u>4,061,447</u>	<u>588,586</u>
OPERATING EXPENSES					
Administration	300,360	81,564	102,708	73,212	42,876
Insurance premiums and claims	3,832,770	-	-	3,832,770	-
Other operations	3,000,115	421,904	2,072,302	46,398	459,511
Depreciation	559,875	-	489,712	-	70,163
Total operating expenses	<u>7,693,120</u>	<u>503,468</u>	<u>2,664,722</u>	<u>3,952,380</u>	<u>572,550</u>
Operating income (loss)	203,279	(42,908)	121,084	109,067	16,036
NONOPERATING REVENUES					
Investment earnings	103,129	3,693	57,756	30,784	10,896
Gain on sale of capital assets	28,529	-	28,529	-	-
Total nonoperating revenues	<u>131,658</u>	<u>3,693</u>	<u>86,285</u>	<u>30,784</u>	<u>10,896</u>
Income (loss) before transfers	334,937	(39,215)	207,369	139,851	26,932
Transfers in	28,046	-	-	28,046	-
Transfers out	(136,272)	-	-	(136,272)	-
Change in net assets	<u>226,711</u>	<u>(39,215)</u>	<u>207,369</u>	<u>31,625</u>	<u>26,932</u>
Net assets at January 1, 2008	<u>6,753,732</u>	<u>140,909</u>	<u>3,637,075</u>	<u>1,838,510</u>	<u>1,137,238</u>
Net assets at December 31, 2008	<u>\$ 6,980,443</u>	<u>\$ 101,694</u>	<u>\$ 3,844,444</u>	<u>\$ 1,870,135</u>	<u>\$ 1,164,170</u>

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended December 31, 2008

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 161,274	\$ 71,814	\$ 81,694	\$ 450	\$ 7,316
Receipts from interfund services provided	7,803,575	457,581	2,703,727	4,060,997	581,270
Payments to suppliers	(6,372,465)	(139,188)	(1,423,381)	(4,543,119)	(266,777)
Payments to employees	(961,276)	(279,287)	(466,648)	(24,512)	(190,829)
Payments for interfund services used	(679,326)	(78,966)	(260,848)	(296,954)	(42,558)
Net cash provided by (used for) operating activities	(48,218)	31,954	634,544	(803,138)	88,422
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	28,046	-	-	28,046	-
Transfers out	(136,272)	-	-	(136,272)	-
Net cash used for noncapital financing activities	(108,226)	-	-	(108,226)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(259,430)	-	(259,430)	-	-
Proceeds from sale of capital assets	35,229	-	35,229	-	-
Net cash used for capital and related financing activities	(224,201)	-	(224,201)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	103,129	3,693	57,756	30,784	10,896
Net increase (decrease) in cash and investments	(277,516)	35,647	468,099	(880,580)	99,318
Cash and investments at January 1, 2008	3,682,566	96,427	2,004,577	1,206,249	375,313
Cash and investments at December 31, 2008	<u>\$ 3,405,050</u>	<u>\$ 132,074</u>	<u>\$ 2,472,676</u>	<u>\$ 325,669</u>	<u>\$ 474,631</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 203,279	\$ (42,908)	\$ 121,084	\$ 109,067	\$ 16,036
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	559,875	-	489,712	-	70,163
Change in assets and liabilities					
Receivables, net	(958,397)	68,835	(385)	(1,026,847)	-
Inventories	11,783	-	11,783	-	-
Prepaid items	(18,649)	(74)	1,510	(19,995)	(90)
Accounts payable	138,205	260	2,061	134,828	1,056
Accrued liabilities	15,686	5,841	8,779	(191)	1,257
Net cash provided by (used for) operating activities	<u>\$ (48,218)</u>	<u>\$ 31,954</u>	<u>\$ 634,544</u>	<u>\$ (803,138)</u>	<u>\$ 88,422</u>

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 and public school districts.

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
 December 31, 2008

	Total agency funds	Collector	Current tax	Rehab Loan Escrow
ASSETS				
Cash and investments	\$ 11,120,832	\$ 1,163,589	\$ 9,957,243	\$ -
Receivables				
Accounts	2,767	2,767	-	-
Property taxes	14,393,066	-	14,393,066	-
Total assets	\$ 25,516,665	\$ 1,166,356	\$ 24,350,309	\$ -
LIABILITIES				
Accounts payable	\$ 193,101	\$ 193,101	\$ -	\$ -
Due to other governmental units	25,141,666	822,530	24,319,136	-
Deposits held for others	181,898	150,725	31,173	-
Total liabilities	\$ 25,516,665	\$ 1,166,356	\$ 24,350,309	\$ -

City of Muskegon
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 Agency Funds

For the year ended December 31, 2008

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
COLLECTOR FUND				
ASSETS				
Cash and investments	\$ 1,062,271	\$ 16,469,530	\$ 16,368,212	\$ 1,163,589
Accounts receivable	2,767	283,976	283,976	2,767
Total assets	<u>\$ 1,065,038</u>	<u>\$ 16,753,506</u>	<u>\$ 16,652,188</u>	<u>\$ 1,166,356</u>
LIABILITIES				
Accounts payable	\$ 179,063	\$ 11,786,985	\$ 11,772,947	\$ 193,101
Due to other governmental units	715,267	2,045,096	1,937,833	822,530
Deposits held for others	170,708	2,951,589	2,971,572	150,725
Total liabilities	<u>\$ 1,065,038</u>	<u>\$ 16,783,670</u>	<u>\$ 16,682,352</u>	<u>\$ 1,166,356</u>
CURRENT TAX FUND				
ASSETS				
Cash and investments	\$ 5,198,237	\$ 34,172,795	\$ 29,413,789	\$ 9,957,243
Property taxes receivable	13,913,118	26,310,204	25,830,256	14,393,066
Total assets	<u>\$ 19,111,355</u>	<u>\$ 60,482,999</u>	<u>\$ 55,244,045</u>	<u>\$ 24,350,309</u>
LIABILITIES				
Due to other governmental units	\$ 19,086,166	\$ 26,310,204	\$ 21,077,234	\$ 24,319,136
Due to other funds	-	7,789,825	7,789,825	-
Due to component units	-	447,884	447,884	-
Deposits held for others	25,189	104,830	98,846	31,173
Total liabilities	<u>\$ 19,111,355</u>	<u>\$ 34,652,743</u>	<u>\$ 29,413,789</u>	<u>\$ 24,350,309</u>
REHAB LOAN ESCROW FUND				
ASSETS				
Cash and investments	\$ -	\$ 1,687	\$ 1,687	\$ -
LIABILITIES				
Accounts payable	\$ -	\$ 1,687	\$ 1,687	\$ -
ALL AGENCY FUNDS				
ASSETS				
Cash and investments	\$ 6,260,508	\$ 50,644,012	\$ 45,783,688	\$ 11,120,832
Receivables	2,767	283,976	283,976	2,767
Accounts	13,913,118	26,310,204	25,830,256	14,393,066
Property taxes	20,176,393	77,238,192	71,897,920	25,516,665
Total assets	<u>\$ 20,176,393</u>	<u>\$ 77,238,192</u>	<u>\$ 71,897,920</u>	<u>\$ 25,516,665</u>
LIABILITIES				
Accounts payable	\$ 179,063	\$ 11,788,672	\$ 11,774,634	\$ 193,101
Due to other governmental units	19,801,433	28,355,300	23,015,067	25,141,666
Due to other funds	-	7,789,825	7,789,825	-
Due to component units	-	447,884	447,884	-
Deposits held for others	195,897	3,056,419	3,070,418	181,898
Total liabilities	<u>\$ 20,176,393</u>	<u>\$ 51,438,100</u>	<u>\$ 46,097,828</u>	<u>\$ 25,516,665</u>

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 – to account for the collection of tax increment revenues and the construction of public facilities. Three separate local development finance authority districts have been created:

Local Development Finance Authority I – to promote and facilitate economic growth in the Port City Industrial Park.

Local Development Finance Authority II – to promote and facilitate economic growth in the Medendorp Industrial Park.

Local Development Finance Authority III – 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.

City of Muskegon
COMBINING BALANCE SHEET
Discretely Presented Component Units
December 31, 2008

	Total discretely presented component units	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
ASSETS							
Cash and investments	\$ 62,794	\$ 347	\$ 25,092	\$ 8,753	\$ 14,619	\$ 13,983	\$ -
Property taxes receivable	645,170	-	-	68,380	518,996	53,773	4,021
Total assets	<u>\$ 707,964</u>	<u>\$ 347</u>	<u>\$ 25,092</u>	<u>\$ 77,133</u>	<u>\$ 533,615</u>	<u>\$ 67,756</u>	<u>\$ 4,021</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities							
Due to primary government	\$ 17,863	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,863
Deferred revenue	645,170	-	-	68,380	518,996	53,773	4,021
Total liabilities	<u>663,033</u>	<u>-</u>	<u>-</u>	<u>68,380</u>	<u>518,996</u>	<u>53,773</u>	<u>21,884</u>
Fund balances (deficits)							
Unreserved	44,931	347	25,092	8,753	14,619	13,983	(17,863)
Total liabilities and fund balances (deficits)	<u>\$ 707,964</u>	<u>\$ 347</u>	<u>\$ 25,092</u>	<u>\$ 77,133</u>	<u>\$ 533,615</u>	<u>\$ 67,756</u>	<u>\$ 4,021</u>

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
December 31, 2008

Total fund balance—governmental funds \$ 44,931

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

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

Capital assets	\$ 4,198,258
Accumulated depreciation	<u>(877,628)</u>
	3,320,630

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	141,966
Accumulated amortization	<u>(37,035)</u>
	104,931

Accrued interest in governmental activities is not reported in the governmental funds.

(43,700)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

(8,254,288)

Net assets of governmental activities in the Statement of Net Assets (Deficits)

\$ (4,827,496)

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Discretely Presented Component Units
For the year ended December 31, 2008

	Total discretely presented component units	Local			Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
		Development Finance Authority I	Development Finance Authority II	Development Finance Authority III			
REVENUES							
Property taxes	\$ 601,404	\$ -	\$ -	\$ 38,249	\$ 505,697	\$ 57,458	\$ -
Intergovernmental revenues - Local	250,000	-	-	150,000	100,000	-	-
Investment earnings	2,936	12	699	1,126	926	173	-
Other	359,787	-	-	75,000	284,787	-	-
Total revenues	1,214,127	12	699	264,375	891,410	57,631	-
EXPENDITURES							
Current							
Community and economic development	536,504	-	-	-	468,641	50,000	17,863
Debt service							
Principal	290,000	-	-	80,000	210,000	-	-
Interest and fees	342,439	-	-	202,897	139,542	-	-
Total expenditures	1,168,943	-	-	282,897	818,183	50,000	17,863
Net change in fund balances	45,184	12	699	(18,522)	73,227	7,631	(17,863)
Fund balances (deficit) at January 1, 2008	(253)	335	24,393	27,275	(58,608)	6,352	-
Fund balances (deficit) at December 31, 2008	\$ 44,931	\$ 347	\$ 25,092	\$ 8,753	\$ 14,619	\$ 13,983	\$ (17,863)

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

Discretely Presented Component Units
For the year ended December 31, 2008

Net change in fund balances—total governmental funds	\$ 45,184
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	(178,821)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,200
Change in net assets of governmental activities	\$ 156,994

SCHEDULE OF INDEBTEDNESS

City of Muskegon

SCHEDULE OF INDEBTEDNESS

December 31, 2008

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2007	2008	
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds (\$7,833 unamortized discount)	10/1/1993	\$ 5,465,000	0.00%	05/01/08	\$ -	\$ -	-
			0.00%	05/01/09	-	-	40,500
			0.00%	05/01/10	-	-	40,500
			0.00%	05/01/11	-	-	40,500
			4.50%	05/01/12	450,000	450,000	30,375
			4.50%	05/01/13	450,000	450,000	10,121
				<u>900,000</u>	<u>900,000</u>	<u>161,996</u>	
Water supply system bonds (\$40,367 unamortized discount)	3/2/1999	\$ 9,575,000	4.05%	05/01/08	490,000	-	-
			4.10%	05/01/09	510,000	510,000	268,350
			4.20%	05/01/10	535,000	535,000	246,660
			4.30%	05/01/11	555,000	555,000	223,493
			4.35%	05/01/12	130,000	130,000	208,733
			4.40%	05/01/13	155,000	155,000	202,495
			4.50%	05/01/14	635,000	635,000	184,798
			4.55%	05/01/15	665,000	665,000	155,381
			4.60%	05/01/16	695,000	695,000	124,268
			4.65%	05/01/17	730,000	730,000	91,310
			4.75%	05/01/18	765,000	765,000	56,169
			4.75%	05/01/19	800,000	800,000	19,000
							<u>6,665,000</u>
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/08	590,000	-	-
			2.13%	10/01/09	600,000	600,000	258,613
			2.13%	10/01/10	615,000	615,000	245,863
			2.13%	10/01/11	630,000	630,000	232,794
			2.13%	10/01/12	640,000	640,000	219,406
			2.13%	10/01/13	655,000	655,000	205,806
			2.13%	10/01/14	670,000	670,000	191,888
			2.13%	10/01/15	685,000	685,000	177,650
			2.13%	10/01/16	695,000	695,000	163,094
			2.13%	10/01/17	710,000	710,000	148,325
			2.13%	10/01/18	725,000	725,000	133,238
			2.13%	10/01/19	745,000	745,000	117,831
			2.13%	10/01/20	760,000	760,000	102,000
			2.13%	10/01/21	775,000	775,000	85,850
			2.13%	10/01/22	790,000	790,000	69,382
			2.13%	10/01/23	810,000	810,000	52,594
2.13%	10/01/24	825,000	825,000	35,381			
2.13%	10/01/25	840,000	840,000	17,850			
				<u>12,760,000</u>	<u>12,170,000</u>	<u>2,457,565</u>	
Contractual obligation for County wastewater debt retirement	11/6/2002	\$ 6,990,000	5.00%	07/01/08	1,221,207	-	-
					<u>1,221,207</u>	<u>-</u>	<u>-</u>
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 21,546,207</u>	<u>\$ 19,245,000</u>	<u>\$ 4,400,218</u>

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2008

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Annual Interest Payable		
					2007	2008	
Governmental Activities Bonds and Loans Payable:							
Installment purchase contract of 2005 (firetrucks)	7/26/2005	\$ 605,824	3.83%	04/01/08	\$ 54,148	\$ -	-
			3.83%	04/01/09	56,471	56,471	16,153
			3.83%	04/01/10	58,894	58,894	13,944
			3.83%	04/01/11	61,420	61,420	11,639
			3.83%	04/01/12	64,055	64,055	9,236
			3.83%	04/01/13	66,803	66,803	6,731
			3.83%	04/01/14	69,669	69,669	4,117
			3.83%	04/01/15	72,658	72,658	1,391
							504,118
Special assessment improvement bonds of 1998 (sidewalks)	10/1/1998	\$ 1,495,000	4.00%	04/01/08	95,000	-	-
			4.00%	04/01/09	60,000	60,000	1,200
					155,000	60,000	1,200
Special assessment improvement bonds of 2000 (sidewalks)	12/1/2000	\$ 825,000	4.80%	04/01/08	85,000	-	-
			4.90%	04/01/09	85,000	85,000	5,583
			5.00%	04/01/10	70,000	70,000	1,746
					240,000	155,000	7,329
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	2.88%	06/01/08	110,000	-	-
			3.13%	06/01/09	115,000	115,000	36,902
			3.50%	06/01/10	120,000	120,000	33,005
			3.50%	06/01/11	120,000	120,000	28,805
			3.70%	06/01/12	125,000	125,000	24,393
			3.80%	06/01/13	130,000	130,000	19,610
			3.90%	06/01/14	135,000	135,000	14,508
			4.00%	06/01/15	145,000	145,000	8,975
			4.05%	06/01/16	150,000	150,000	3,038
				1,150,000	1,040,000	169,234	
Capital improvement bonds of 2006 (fire station, recreation) (\$15,643 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/08	45,000	-	-
			4.00%	10/01/09	50,000	50,000	217,345
			4.00%	10/01/10	70,000	70,000	215,345
			4.00%	10/01/11	70,000	70,000	212,545
			4.00%	10/01/12	70,000	70,000	209,745
			4.00%	10/01/13	70,000	70,000	206,945
			4.00%	10/01/14	70,000	70,000	204,145
			4.00%	10/01/15	70,000	70,000	201,345
			4.00%	10/01/16	70,000	70,000	198,545
			4.00%	10/01/17	70,000	70,000	195,745
			4.00%	10/01/18	70,000	70,000	192,945
			4.00%	10/01/19	295,000	295,000	190,145
			4.00%	10/01/20	305,000	305,000	178,345
			4.00%	10/01/21	315,000	315,000	166,145
			4.00%	10/01/22	315,000	315,000	153,545
			4.00%	10/01/23	320,000	320,000	140,945
			4.00%	10/01/24	340,000	340,000	128,145
			4.00%	10/01/25	345,000	345,000	114,545
			4.00%	10/01/26	345,000	345,000	100,745
			4.10%	10/01/27	345,000	345,000	86,945
			4.10%	10/01/28	350,000	350,000	72,800
			4.10%	10/01/29	350,000	350,000	58,450
4.20%	10/01/30	350,000	350,000	44,100			
4.20%	10/01/31	350,000	350,000	29,400			
4.20%	10/01/32	350,000	350,000	14,700			
				5,400,000	5,355,000	3,533,605	

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2008

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable	
					2007	2008		
Governmental Activities Bonds and Loans Payable:								
State of Michigan urban land assembly loan	12/15/1999	\$ 1,276,900	0.00%	10/31/08	200,000	-	-	
				10/31/09	276,900	276,900	-	
					<u>476,900</u>	<u>276,900</u>	-	
State of Michigan urban land assembly loan	8/1/2005	\$ 700,000	0.00%	09/01/08	20,000	-	-	
				09/01/09	20,000	20,000	-	
				09/01/10	20,000	20,000	-	
				09/01/11	120,000	120,000	-	
				09/01/12	120,000	120,000	-	
				09/01/13	120,000	120,000	-	
				09/01/14	120,000	120,000	-	
				09/01/15	120,000	120,000	-	
		<u>660,000</u>	<u>640,000</u>	-				
State of Michigan environmental assessment loan	8/1/2005	\$ 500,000	0.00%	03/18/10	-	54,572	-	
				2.00%	03/18/11	-	45,663	8,909
				2.00%	03/18/12	-	46,577	7,995
				2.00%	03/18/13	-	47,508	7,064
				2.00%	03/18/14	-	48,458	6,114
				2.00%	03/18/15	-	49,427	5,144
				2.00%	03/18/16	-	50,416	4,156
				2.00%	03/18/17	-	51,424	3,148
				2.00%	03/18/18	-	52,453	2,119
2.00%	03/18/19	-	53,502	1,070				
		-	<u>500,000</u>	<u>45,718</u>				
Michigan transportation fund refunding bond	10/1/2002	\$ 2,245,000	3.13%	06/01/08	390,000	-	-	
					<u>390,000</u>	<u>-</u>	<u>-</u>	
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 8,976,018	\$ 8,476,870	\$ 3,820,298	
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 30,522,225	\$ 27,721,870	\$ 8,220,516	

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2008

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2007	2008	
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	-
Downtown Development Authority refunding bonds	9/1/2001	\$ 4,005,000	4.00%	06/01/08	210,000	-	-
			4.20%	06/01/09	220,000	220,000	120,472
			4.25%	06/01/10	230,000	230,000	110,964
			4.35%	06/01/11	240,000	240,000	100,857
			4.45%	06/01/12	245,000	245,000	90,187
			4.55%	06/01/13	260,000	260,000	78,821
			4.65%	06/01/14	270,000	270,000	66,628
			4.75%	06/01/15	280,000	280,000	53,700
			4.85%	06/01/16	300,000	300,000	39,775
			5.00%	06/01/17	315,000	315,000	24,625
			5.00%	06/01/18	335,000	335,000	8,375
					2,905,000	2,695,000	694,404
Local Development Finance Authority Smartzone Bonds (\$5,712 unamortized discount)	11/1/2002	\$ 4,725,000	3.50%	11/01/08	80,000	-	-
			3.63%	11/01/09	80,000	80,000	199,747
			3.88%	11/01/10	80,000	80,000	196,847
			3.88%	11/01/11	80,000	80,000	193,747
			4.00%	11/01/12	180,000	180,000	190,647
			3.90%	11/01/13	240,000	240,000	183,447
			4.05%	11/01/14	305,000	305,000	174,087
			4.05%	11/01/15	325,000	325,000	161,736
			4.15%	11/01/16	340,000	340,000	148,572
			4.25%	11/01/17	355,000	355,000	134,462
			4.35%	11/01/18	375,000	375,000	119,376
			4.45%	11/01/19	395,000	395,000	103,062
			4.60%	11/01/20	400,000	400,000	85,486
			4.60%	11/01/21	255,000	255,000	67,086
			4.60%	11/01/22	265,000	265,000	55,356
			4.85%	11/01/23	280,000	280,000	43,166
			4.85%	11/01/24	295,000	295,000	29,586
			4.85%	11/01/25	315,000	315,000	15,278
					4,645,000	4,565,000	2,101,688
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 8,550,000	\$ 8,260,000	\$ 2,796,092
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 39,072,225	\$ 35,981,870	\$ 11,016,608

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.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	114
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	118
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	124
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	128
Operating Information	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	130

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

City of Muskegon

NET ASSETS BY COMPONENT

Last Six Fiscal Years

	2003	2004	2005 (a)	2006	2007	2008
<u>Governmental Activities</u>						
Invested in Capital Assets, net of related debt	\$ 32,120,134	\$ 40,663,844	\$ 67,119,658	\$ 68,189,021	\$ 68,059,626	\$ 69,564,935
Restricted	5,674,787	5,209,654	5,420,482	5,378,669	5,485,703	3,557,678
Unrestricted	9,286,551	7,407,355	7,811,489	8,778,786	10,162,425	10,708,529
Total Governmental Net Assets	<u>\$ 47,081,472</u>	<u>\$ 53,280,853</u>	<u>\$ 80,351,629</u>	<u>\$ 82,346,476</u>	<u>\$ 83,707,754</u>	<u>\$ 83,831,142</u>
<u>Business-type Activities</u>						
Invested in Capital Assets, net of related debt	\$ 27,808,792	\$ 31,609,016	\$ 36,742,669	\$ 39,441,912	\$ 39,356,966	\$ 40,876,621
Restricted	822,559	822,559	822,559	822,559	822,559	822,559
Unrestricted	10,488,022	8,647,716	6,663,563	6,910,247	7,980,823	6,775,508
Total Business-type Activities Net Assets	<u>\$ 39,119,373</u>	<u>\$ 41,079,291</u>	<u>\$ 44,228,791</u>	<u>\$ 47,174,718</u>	<u>\$ 48,160,348</u>	<u>\$ 48,474,688</u>
<u>Primary Government</u>						
Invested in Capital Assets, net of related debt	\$ 59,928,926	\$ 72,272,860	\$ 103,862,327	\$ 107,630,933	\$ 107,416,592	\$ 110,441,556
Restricted	6,497,346	6,032,213	6,243,041	6,201,228	6,308,262	4,380,237
Unrestricted	19,774,573	16,055,071	14,475,052	15,689,033	18,143,248	17,484,037
Total Primary Government Net Assets	<u>\$ 86,200,845</u>	<u>\$ 94,360,144</u>	<u>\$ 124,580,420</u>	<u>\$ 129,521,194</u>	<u>\$ 131,868,102</u>	<u>\$ 132,305,830</u>

(a) In 2005, the City began reporting historic infrastructure assets as required by GASB 34.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

CHANGES IN NET ASSETS

Last Six Fiscal Years

	2003	2004	2005	2006	2007	2008
EXPENSES						
<u>Governmental Activities</u>						
Public representation	\$ 887,496	\$ 866,669	\$ 885,365	\$ 904,109	\$ 925,124	\$ 986,696
Administrative services	1,227,407	1,132,229	803,783	732,715	783,713	782,362
Financial services	1,842,653	1,809,136	1,872,159	2,061,836	2,205,041	2,292,430
Public safety	11,583,282	12,164,389	12,481,826	13,059,358	12,802,488	13,955,811
Public works	2,947,194	2,847,755	2,853,497	3,089,522	2,989,433	3,019,411
Highways, streets and bridges	3,483,032	3,879,462	5,910,307	5,672,590	7,272,288	7,265,438
Community and economic development	3,371,472	2,652,497	3,693,187	3,383,157	3,054,087	3,174,508
Culture and recreation	3,042,315	2,468,059	2,504,692	2,464,567	2,433,020	2,623,501
General administration	1,601,112	1,725,225	1,608,108	1,143,963	358,225	574,955
Interest on long-term debt	223,717	193,021	170,814	206,768	343,106	324,076
Total Governmental Activities Expenses	30,209,680	29,738,442	32,783,738	32,718,585	33,166,525	34,999,188
<u>Business-type Activities</u>						
Water	4,538,186	4,122,822	4,181,855	4,500,578	5,795,279	5,800,977
Sewer	3,416,372	3,745,156	3,953,838	5,006,594	5,066,693	5,503,144
Marina and launch ramp	325,401	351,705	343,599	332,826	392,994	347,642
Total Business-type Activities Expenses	8,279,959	8,219,683	8,479,292	9,839,998	11,254,966	11,651,763
Total Primary Government Expenses	\$ 38,489,639	\$ 37,958,125	\$ 41,263,030	\$ 42,558,583	\$ 44,421,491	\$ 46,650,951
PROGRAM REVENUES						
<u>Governmental Activities</u>						
Charges for Services						
Public representation	\$ 204,435	\$ 210,238	\$ 195,316	\$ 202,939	\$ 199,759	\$ 188,467
Administrative services	292,665	314,028	311,529	306,964	287,011	257,850
Financial services	591,174	645,166	537,445	728,332	744,109	726,572
Public safety	1,162,175	1,098,793	1,116,755	1,134,686	1,224,062	1,217,616
Public works	266,045	452,606	467,849	588,566	407,569	382,072
Highways, streets and bridges	273,893	555,018	267,689	263,423	372,133	301,955
Community and economic development	977,448	414,543	815,980	762,220	356,051	297,854
Culture and recreation	1,026,822	1,151,687	1,141,865	809,228	454,154	405,520
General administration	122,447	200,434	314,658	170,240	64,366	99,494
Operating grants and contributions	5,613,628	6,008,978	6,017,421	5,093,355	5,229,279	5,367,152
Capital grants and contributions	10,494,617	5,785,604	5,894,358	5,360,014	3,347,680	3,444,957
Total Governmental Program Revenues	21,025,349	16,837,095	17,080,865	15,419,967	12,686,173	12,689,509
<u>Business-type Activities</u>						
Water	4,131,126	4,977,320	6,912,719	6,342,110	6,569,228	6,240,060
Sewer	4,057,743	4,083,591	4,149,187	4,803,702	5,179,095	5,326,787
Marina and launch ramp	274,258	266,981	248,460	267,412	281,679	250,266
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	256,612	657,521	100,373	710,641	-	-
Total Business-type program revenues	8,719,739	9,985,413	11,410,739	12,123,865	12,030,002	11,817,113
Total Primary Government program revenues	\$ 29,745,088	\$ 26,822,508	\$ 28,491,604	\$ 27,543,832	\$ 24,716,175	\$ 24,506,622
NET (EXPENSE) REVENUE						
Governmental Activities	(9,184,331)	(12,901,347)	(15,702,873)	(17,298,618)	(20,480,352)	(22,309,679)
Business-type Activities	439,780	1,765,730	2,931,447	2,283,867	775,036	165,350
Total Primary Government net expense	\$ (8,744,551)	\$ (11,135,617)	\$ (12,771,426)	\$ (15,014,751)	\$ (19,705,316)	\$ (22,144,329)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
<u>Governmental Activities</u>						
Property taxes	\$ 7,029,393	\$ 6,962,453	\$ 7,670,384	\$ 7,846,707	\$ 8,014,102	\$ 8,349,341
Income taxes	6,644,708	7,326,811	7,238,552	7,673,696	7,757,707	8,117,566
Franchise fees	265,532	-	286,265	285,124	297,200	304,812
Grants and contributions not restricted for specific programs	4,938,861	4,645,348	4,627,915	4,674,157	4,475,462	4,487,698
Unrestricted investment earnings	281,492	170,094	420,595	832,300	1,247,520	730,142
Miscellaneous	109,620	68,405	70,402	64,645	88,035	160,460
Gain on sale of capital asset	62,992	70,886	300,037	81,372	1,604	323,048
Transfers	-	(142,420)	(80,000)	(540,000)	(40,000)	(40,000)
Total Governmental Program Revenues	19,332,598	19,101,577	20,534,150	20,918,001	21,841,630	22,433,067
<u>Business-type Activities</u>						
Unrestricted investment earnings	71,628	51,768	138,053	122,060	170,594	108,990
Gain on sale of capital asset	(88,767)	-	-	-	-	-
Transfers	-	142,420	80,000	540,000	40,000	40,000
Total Business-type program revenues	(17,139)	194,188	218,053	662,060	210,594	148,990
Total Primary Government program revenues	\$ 19,315,459	\$ 19,295,765	\$ 20,752,203	\$ 21,580,061	\$ 22,052,224	\$ 22,582,057
CHANGE IN NET ASSETS						
Governmental Activities	10,148,267	6,200,230	4,831,277	3,619,383	1,361,278	123,388
Business-type Activities	422,641	1,959,918	3,149,500	2,945,927	985,630	314,340
Total Primary Government	\$ 10,570,908	\$ 8,160,148	\$ 7,980,777	\$ 6,565,310	\$ 2,346,908	\$ 437,728

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund										
Reserved	\$ 38,993	\$ 78,998	\$ 75,337	\$ 173,696	\$ 110,642	\$ 74,349	\$ 79,356	\$ 177,076	\$ 180,410	\$ 214,819
Unreserved	1,459,883	2,872,737	3,087,031	2,634,300	2,320,776	2,370,842	2,440,249	2,512,963	2,740,222	2,168,906
Total general fund	\$ 1,498,876	\$ 2,951,735	\$ 3,162,368	\$ 2,807,996	\$ 2,431,418	\$ 2,445,191	\$ 2,519,605	\$ 2,690,039	\$ 2,920,632	\$ 2,383,725
All other governmental funds										
Reserved	\$ 2,265,315	\$ 2,562,867	\$ 2,533,419	\$ 2,309,214	\$ 1,159,364	\$ 1,187,662	\$ 2,915,106	\$ 7,044,394	\$ 4,130,995	\$ 4,065,280
Unreserved, reported in:										
Special revenue funds	5,361,411	4,900,500	4,579,430	3,785,857	3,254,746	2,692,431	2,910,285	3,030,096	4,462,015	2,768,886
Debt service	-	-	-	-	153,955	-	-	-	-	-
Capital project funds	2,848,138	2,361,991	2,143,770	1,614,636	3,849,868	2,187,667	1,239,763	390,282	635,676	992,736
Permanent funds	26,834	60,779	91,707	102,837	63,798	22,896	22,890	77,300	84,413	60,813
Total all other governmental funds	\$ 10,501,698	\$ 9,886,137	\$ 9,348,326	\$ 7,812,544	\$ 8,481,731	\$ 6,090,656	\$ 7,088,044	\$ 10,542,072	\$ 9,313,099	\$ 7,887,715

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	\$ 12,090,941	\$ 12,969,769	\$ 12,996,607	\$ 13,607,863	\$ 13,306,798	\$ 13,767,040	\$ 14,521,769	\$ 15,052,708	\$ 15,420,032	\$ 15,728,859
Intergovernmental	10,070,273	16,045,805	15,847,954	15,473,320	18,879,071	15,448,865	15,445,949	14,703,371	12,752,363	13,012,035
Charges for services	2,706,390	3,149,195	2,847,201	3,010,798	3,307,607	3,437,220	3,147,066	2,938,246	2,722,894	2,463,975
Other	3,848,561	4,528,702	4,965,889	3,872,459	3,629,983	3,828,223	4,134,604	3,758,956	4,618,149	3,624,579
Total revenues	28,716,165	36,693,471	36,657,651	35,964,440	39,123,459	36,481,348	37,249,388	36,453,281	35,513,438	34,829,448
Expenditures										
Public representation	727,900	807,496	903,378	985,107	889,188	869,342	886,717	903,895	927,320	987,229
Administrative services	727,016	759,653	717,680	816,581	785,966	704,667	748,588	669,789	644,913	632,513
Financial services	1,549,115	1,585,890	1,679,979	1,797,662	1,846,558	1,829,276	1,905,714	2,056,580	2,231,519	2,298,830
Public safety	10,343,279	11,110,085	11,136,752	11,514,151	11,439,487	12,277,677	12,624,532	13,002,233	12,902,815	13,754,394
Public works	2,738,257	2,668,788	2,678,089	2,680,695	2,731,241	2,543,512	2,661,073	2,730,415	2,768,906	2,831,177
Highways, streets and bridges	4,896,257	7,894,893	8,309,998	8,816,305	11,800,017	8,654,931	9,531,840	8,023,539	6,504,915	6,414,453
Community and economic development	1,338,643	931,336	948,756	971,335	987,097	797,072	784,396	763,211	894,879	1,077,312
Culture and recreation	2,329,065	2,345,712	2,637,586	2,610,935	2,624,275	2,259,699	2,197,276	2,190,835	2,254,117	2,394,031
Other governmental functions	1,698,394	1,252,351	1,441,234	1,798,345	1,589,572	1,708,868	1,603,292	1,139,148	350,385	562,341
Debt service										
Principal	2,186,334	1,420,462	1,425,741	1,345,000	1,270,000	1,335,000	1,115,000	1,189,785	1,241,921	999,148
Interest and issuance costs	502,852	380,123	367,317	316,255	230,907	201,447	166,071	271,233	324,577	310,432
Capital outlay	2,754,575	6,212,205	5,338,105	4,721,155	4,496,631	6,139,597	3,734,082	6,066,783	5,683,657	5,473,828
Total expenditure	31,791,687	37,368,994	37,584,615	38,373,526	40,690,939	39,321,088	37,958,581	39,007,446	36,729,924	37,735,688
Excess of revenues over (under) expenditures	(3,075,522)	(675,523)	(926,964)	(2,409,086)	(1,567,480)	(2,839,740)	(709,193)	(2,554,165)	(1,216,486)	(2,906,240)
Other financing sources (uses)										
Transfers in	1,799,463	2,367,561	2,713,591	2,059,336	2,740,742	3,342,612	1,839,631	2,358,509	1,926,538	1,477,717
Transfers out	(1,964,092)	(2,336,039)	(2,403,591)	(2,047,491)	(2,740,742)	(3,233,369)	(1,947,677)	(2,926,554)	(1,994,584)	(1,409,491)
Bonds issued	1,276,900	825,000	-	106,807	1,578,009	-	1,061,900	5,626,331	-	500,000
Sale of capital assets	247,361	356,299	289,786	400,280	282,080	483,544	827,141	1,120,341	286,152	375,723
Total other financing sources (uses)	1,359,632	1,212,821	599,786	518,932	1,860,089	592,787	1,780,995	6,178,627	218,106	943,949
Net change in fund balances	\$(1,715,890)	\$ 537,298	\$(327,178)	\$(1,890,154)	\$ 292,609	\$(2,246,953)	\$ 1,071,802	\$ 3,624,462	\$(998,380)	\$(1,962,291)
Debt service as a percentage of noncapital expenditures	9.26%	5.78%	5.56%	4.94%	4.15%	4.63%	3.74%	4.44%	5.05%	4.06%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

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
1999	\$ 5,665,792	19.7%	\$ 6,425,149	22.4%	\$ 10,070,273	35.1%	\$ 2,706,390	9.4%	\$ 1,015,777	3.5%	\$ 277,369	1.0%	\$ 1,035,556	3.6%	\$ 1,519,859	5.3%	\$ 28,716,165	-
2000	5,891,198	16.1%	7,078,571	19.3%	16,045,805	43.7%	3,149,195	8.6%	1,030,830	2.8%	338,677	0.9%	1,142,700	3.1%	2,016,495	5.5%	36,693,471	27.8%
2001	6,176,436	16.8%	6,820,171	18.6%	15,847,954	43.2%	2,847,201	7.8%	1,014,598	2.8%	350,557	1.0%	914,214	2.5%	2,686,520	7.3%	36,657,651	-0.1%
2002	6,915,254	19.2%	6,692,609	18.6%	15,473,320	43.0%	3,010,798	8.4%	947,428	2.6%	393,314	1.1%	662,513	1.8%	1,869,204	5.2%	35,964,440	-1.9%
2003	6,764,443	17.3%	6,542,355	16.7%	18,879,071	48.3%	3,307,607	8.5%	1,108,780	2.8%	471,682	1.2%	516,482	1.3%	1,533,039	3.9%	39,123,459	8.8%
2004	6,733,653	18.5%	7,033,387	19.3%	15,448,865	42.3%	3,437,220	9.4%	1,139,014	3.1%	622,165	1.7%	435,152	1.2%	1,631,892	4.5%	36,481,348	-6.8%
2005	7,438,382	20.0%	7,083,023	19.0%	15,445,949	41.5%	3,147,066	8.4%	1,047,981	2.8%	648,300	1.7%	684,165	1.8%	1,754,158	4.7%	37,249,024	2.1%
2006	7,627,535	20.9%	7,425,173	20.4%	14,703,371	40.3%	2,936,246	8.1%	1,009,023	2.8%	544,902	1.5%	1,139,466	3.1%	1,065,565	2.9%	36,453,281	-2.1%
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%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Year	Ad Valorem Assessment Roll				Industrial and Commercial Facilities Assessment Roll						Total Taxable Valuation	Taxable Value As a Percent of Actual	
	Residential	Agriculture	Commercial	Industrial	Total Real Property	Industrial Real Property	Commercial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT			
1999	\$ 228,357,868	\$ 90,793	\$ 102,769,542	\$ 105,450,555	\$ 436,668,758	\$ 117,367,700	\$ 554,036,458	\$ 19,540,064	\$ 62,560,600	\$ -	\$ 82,100,664	\$ 636,137,122	94.06%
2000	239,166,390	86,218	111,996,740	105,150,150	456,399,498	125,766,500	582,165,998	20,340,926	54,398,400	-	74,739,326	656,905,324	90.85%
2001	259,245,700	160,831	117,380,175	104,812,046	481,598,752	150,081,900	631,680,652	15,928,671	61,421,700	-	77,350,371	709,031,023	87.40%
2002	277,504,213	163,166	129,199,142	103,473,256	510,339,777	125,689,450	635,929,227	10,786,400	61,521,500	-	72,307,900	708,237,127	86.36%
2003	295,311,699	163,844	124,679,713	101,987,394	522,142,650	124,833,198	646,975,848	9,114,034	51,183,000	-	60,297,034	707,272,882	85.80%
2004	309,291,380	167,357	123,303,933	103,175,584	535,938,224	115,456,493	651,394,717	7,564,826	51,086,856	-	58,621,682	710,016,399	87.00%
2005	322,359,014	164,935	126,046,550	104,163,650	552,734,149	109,273,769	662,007,918	7,235,276	47,458,411	-	54,693,687	716,701,605	87.62%
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	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	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	86.71%

Assessed and Equalized Valuation of Property

Year	Ad Valorem Assessment Roll				Industrial and Commercial Facilities Assessment Roll						Total Assessed Valuation	Estimated Actual Value	
	Residential	Agriculture	Commercial	Industrial	Total Real Property	Industrial Real Property	Commercial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT			
1999	\$ 263,233,400	\$ 100,700	\$ 107,881,200	\$ 105,577,900	\$ 476,793,200	\$ 117,367,700	\$ 594,160,900	\$ 19,589,800	\$ 62,560,600	\$ -	\$ 82,150,400	\$ 676,311,300	\$ 1,352,622,600
2000	292,740,000	110,700	122,567,000	106,489,200	521,916,900	125,766,500	647,683,400	20,988,600	54,398,400	-	75,387,000	723,070,400	1,446,140,800
2001	336,150,700	173,600	136,833,700	109,888,900	583,046,900	150,081,900	733,128,800	16,676,500	61,421,700	-	78,098,200	811,227,000	1,622,454,000
2002	358,727,850	173,600	152,324,900	110,440,500	621,666,850	125,697,200	747,264,050	11,272,200	61,521,500	-	72,793,700	820,057,750	1,640,115,500
2003	383,845,613	181,300	144,310,700	110,600,499	638,938,112	124,840,700	763,778,812	9,333,500	51,183,000	-	60,516,500	824,295,312	1,648,590,624
2004	384,783,400	184,800	141,579,300	114,486,500	641,044,000	115,591,300	756,635,300	7,717,000	51,785,000	-	59,502,000	816,137,300	1,632,274,600
2005	397,915,080	200,800	142,436,699	112,694,600	653,247,179	109,280,200	762,527,379	7,481,500	47,924,200	-	55,406,700	817,933,079	1,635,866,158
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

City of Muskegon

Principal Property Taxpayers

December 31, 2008

Taxpayer	2008			1999		
	Taxable Valuation	Rank	Percent of Total Taxable Valuation	Taxable Valuation	Rank	Percent of Total Taxable Valuation
Consumers Energy	\$ 75,043,646	1	9.7%	\$ 62,900,184	1	9.9%
Sappi/S.D. Warren Company	31,731,470	2	4.1%	58,596,490	2	9.2%
Johnson Technology	8,459,248	3	1.1%	8,043,400	5	1.3%
ADAC Plastics Inc	7,002,406	4	0.9%	6,769,252	8	1.1%
ESCO Company	6,662,507	5	0.9%	5,949,800	9	0.9%
DTE Energy (formerly MichCon).	5,170,300	6	0.7%	8,315,526	3	1.3%
Coles Quality Foods	5,011,120	7	0.6%	5,886,935	10	0.9%
Honeywell Inc	4,988,400	8	0.6%	-		0.0%
Lorin Industries	4,685,934	9	0.6%	-		0.0%
Faram Muskegon LLC	4,675,500	10	0.6%	-		0.0%
Brunswick Corp	-		0.0%	7,887,267	6	1.2%
Muskegon Properties	-		0.0%	8,100,139	4	1.3%
Bekaert Steel Wire	-		0.0%	6,935,016	7	1.1%
Total - 10 Largest	153,430,531		19.9%	179,384,009		28.2%
Total - All Other	618,374,813		80.1%	456,753,113		71.8%
	\$ 771,805,344		100.0%	\$ 636,137,122		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
1999	7.0000	0.0880	3.0000	10.0880	0.9947
2000	7.0000	0.0859	3.0000	10.0859	0.9947
2001	7.0000	0.0792	3.0000	10.0792	2.4000
2002	7.0000	0.0786	3.0000	10.0786	2.4000
2003	7.5000	0.0774	2.5000	10.0774	2.4000
2004	8.5000	0.0768	2.5000	11.0768	2.4000
2005	8.5000	0.0755	2.5000	11.0755	2.4000
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

Overlapping - County-Wide Rates

Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College
1999	6.6550	0.4698	2.3486	-	2.2523
2000	6.6256	0.4675	2.3374	-	2.2417
2001	6.5799	0.4640	2.3202	-	2.2233
2002	6.6957	0.4599	2.2997	1.0000	2.2037
2003	6.7957	0.4597	2.2983	1.0000	2.2037
2004	6.7957	0.4597	2.2983	1.0000	2.2037
2005	6.7757	0.4597	2.2983	1.0000	2.2037
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

Overlapping - School District

Year	Operating	Debt	Total	State Education
1999	18.0000	7.0000	25.0000	6.0000
2000	18.0000	7.0000	25.0000	6.0000
2001	18.0000	7.0000	25.0000	6.0000
2002	18.0000	7.0000	25.0000	6.0000
2003	18.0000	7.0000	25.0000	5.0000
2004	18.0000	7.0000	25.0000	6.0000
2005	18.0000	7.0000	25.0000	6.0000
2006	18.0000	7.0000	25.0000	6.0000
2007	18.0000	7.0000	25.0000	6.0000
2008	18.0000	5.5000	23.5000	6.0000

Grand Total

Homestead	Non-Homestead
35.8084	53.8084
35.7528	53.7528
37.0666	55.0666
38.1376	56.1376
37.2348	55.2348
39.2342	57.2342
39.2129	57.2129
39.1906	57.1906
39.1659	57.1659
37.6256	55.6256

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	Charge backs			Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
						On Uncollected Delinquent Taxes	Outstanding Delinquent Personal	Outstanding Delinquent Specific			
1999	\$ 6,925,862	\$ 6,185,473	89.3%	\$ 632,875	\$ 6,818,348	\$ 46,219	\$ 89,309	\$ 10,148	2.10%		
2000	7,378,653	6,631,358	89.9%	382,839	7,014,197	47,117	60,847	7,845	1.57%		
2001	7,449,191	6,625,670	88.9%	88,768	6,714,438	24,866	184,894	5,496	2.89%		
2002	7,922,898	7,036,846	88.8%	123,906	7,160,752	30,056	168,666	15,700	2.71%		
2003	8,095,194	7,201,599	89.0%	710,353	7,911,952	27,338	154,843	20,856	2.51%		
2004	8,292,451	7,230,231	87.2%	772,545	8,002,776	36,179	82,305	22,655	1.70%		
2005	8,121,734	6,920,960	85.2%	1,027,932	7,948,892	28,156	78,641	21,100	1.57%		
2006	8,207,019	7,231,508	88.1%	885,675	8,117,183	13,461	65,297	24,539	1.26%		
2007	8,542,477	7,509,102	87.9%	949,754	8,458,856	-	67,586	20,748	1.03%		
2008	8,466,096	7,219,540	85.3%	1,135,738	8,355,278	36,917	73,430	37,388	1.75%		

SOURCE: City of Muskegon Treasurer's Office

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

Most recent Year and Eight Years Previous

Fiscal Year 2008

Fiscal Year 2000

Taxable Income per Return <i>Individual and Joint Returns</i>	# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars	# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars
Resident Taxpayers: (City resident income, after exemptions, exclusions and deductions is taxed at a flat rate of 1%.)										
\$2,500 or less	1,070	5%	\$ 975,237	\$ 9,752	0%	1,179	5%	\$ 1,029,474	\$ 10,295	0%
\$2,501-\$7,500	878	4%	5,977,332	59,773	1%	1,169	5%	6,827,297	68,273	1%
\$7,501-\$25,000	2,237	10%	49,146,862	491,469	6%	2,704	10%	52,426,935	524,269	7%
\$25,001-\$50,000	1,904	8%	96,344,230	963,442	13%	2,394	9%	101,907,814	1,019,078	14%
\$50,001-\$100,000	997	4%	92,426,073	924,261	12%	986	4%	88,566,998	885,670	13%
More than \$100,000	180	1%	45,729,965	457,300	6%	142	1%	40,253,382	402,534	6%
Subtotal	7,266	32%	\$ 290,599,699	\$ 2,905,997	38%	8,574	33%	\$ 291,011,900	\$ 2,910,119	41%

Non-Residents Taxpayers:
(Non-residents are taxed at a rate of 0.5% on income earned within the City.)

\$2,500 or less	2,084	9%	\$ 1,197,966	\$ 8,521	0%	1,939	8%	\$ 1,428,558	\$ 9,525	0%
\$2,501-\$7,500	1,346	6%	6,389,890	45,446	1%	1,665	6%	7,901,142	52,677	1%
\$7,501-\$25,000	3,179	14%	51,410,002	365,645	5%	4,208	16%	68,958,300	459,742	6%
\$25,001-\$50,000	3,759	17%	137,600,200	978,659	13%	4,917	19%	177,165,226	1,181,151	17%
\$50,001-\$100,000	2,495	11%	163,822,200	1,165,159	15%	2,102	8%	135,900,236	906,039	13%
More than \$100,000	619	3%	138,961,800	988,343	13%	527	2%	118,501,368	790,042	11%
Subtotal	13,482	60%	\$ 499,382,058	\$ 3,551,773	46%	15,358	60%	\$ 509,854,830	\$ 3,399,176	48%

All Other Returns

(Mostly corporate returns which pay at a rate of 1% on income earned in City and partnerships which pay based on partners residence status.)

Subtotal	1,850	8%	\$ 1,237,009		16%	1,850	7%	\$ 769,276		11%
Total	22,598	100%	\$ 7,694,779		100%	25,782	100%	\$ 7,078,571		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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information starting that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percent of Personal Income	Per Capita
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business-Type Activities			
1999	\$ 6,281,203	\$ 2,560,000	\$ 1,276,900	\$ 10,118,103	\$ 10,860,000	\$ 10,551,497	\$ -	\$ 21,411,497	\$ 31,529,600	5.5%	783
2000	5,335,741	2,910,000	1,276,900	9,522,641	10,510,000	9,235,090	-	19,745,090	29,267,731	5.0%	730
2001	4,425,000	2,395,000	1,276,900	8,096,900	10,140,000	8,262,203	-	18,402,203	26,499,103	4.4%	661
2002	3,735,000	1,835,000	1,276,900	6,846,900	9,750,000	7,038,014	-	16,788,014	23,634,914	3.8%	589
2003	4,565,000	1,460,000	1,126,900	7,151,900	9,345,000	5,886,923	-	15,231,923	22,383,823	3.6%	562
2004	3,700,000	1,140,000	976,900	5,816,900	8,925,000	4,779,656	8,483,766	22,188,422	28,005,322	4.4%	703
2005	3,615,824	865,000	1,282,976	5,763,800	8,490,000	3,606,017	13,900,000	25,996,017	31,759,817	4.8%	797
2006	8,246,039	615,000	1,356,900	10,217,939	8,035,000	2,454,101	13,335,000	23,824,101	34,042,040	5.0%	855
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	4.5%	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	4.1%	696

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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

DIRECT AND OVERLAPPING DEBT

December 31, 2008

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	City General Taxes
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 19,245,000	\$ 19,245,000	\$ -
Special Assessment Bonds	215,000	215,000	-
Capital Improvement Bonds	6,395,000	-	6,395,000
Intergovernmental Bonds	1,416,900	-	1,416,900
Act 99 Installment Purchase	449,970	-	449,970
Component Unit Debt:			
Downtown Development Authority	3,695,000	3,695,000	-
Local Development Finance Authority	4,565,000	4,565,000	-
Total City Direct Debt	\$ 35,981,870	\$ 27,720,000	\$ 8,261,870
		City Share as	
	Gross	Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 26,914,736	94.51%	\$ 25,437,117
Orchard View School District	45,714,667	26.26%	12,004,672
Reeths Puffer School District	64,854,053	10.35%	6,712,394
Muskegon Intermediate School District	-	15.70%	-
Muskegon County	23,615,000	15.72%	3,712,278
Muskegon Community College	16,490,000	15.72%	2,592,228
Total Overlapping Debt	\$ 177,588,456		50,458,689
Total City Direct and Overlapping Debt			\$ 58,720,559

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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt Limit	\$ 59,416,090	\$ 64,768,340	\$ 73,312,880	\$ 74,726,405	\$ 76,377,881	\$ 75,663,530	\$ 76,252,738	\$ 78,773,640	\$ 84,174,359	\$ 85,933,940
Total net debt applicable to limit	4,122,747	3,502,641	7,232,900	11,066,900	9,726,900	9,191,900	9,918,800	16,142,939	15,591,018	15,481,870
Legal debt margin	\$ 55,293,343	\$ 61,265,699	\$ 66,079,980	\$ 63,659,505	\$ 66,650,981	\$ 66,471,630	\$ 66,333,938	\$ 62,630,701	\$ 68,583,341	\$ 70,452,070

Total net debt applicable to the limit as a percentage of debt limit	6.94%	5.41%	9.87%	14.81%	12.74%	12.15%	13.01%	20.49%	18.52%	18.02%
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Legal Debt Margin Calculation for 2008:

Assessed Valuation:	\$ 859,339,400
Legal Debt Limit (10%)	85,933,940
Total Indebtedness:	35,981,870
Debt not Subject to Limitation:	
Paid by Special Assessment	(1,255,000)
Revenue Bonds	(19,245,000)
Debt Subject to Limitation	15,481,870
Legal Debt Margin	\$ 70,452,070

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon
REVENUE BOND COVERAGE
Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1999	\$ 3,579,929	\$ 2,463,597	\$ 1,116,332	\$ 215,000	\$ 409,391	\$ 624,391	1.79
2000	3,936,337	2,576,864	1,359,473	350,000	494,206	844,206	1.61
2001	4,263,107	3,203,080	1,060,027	370,000	471,301	841,301	1.26
2002	4,051,015	3,030,959	1,020,056	390,000	453,666	843,666	1.21
2003	4,183,015	3,539,690	643,325	405,000	417,559	822,559	0.78
2004	5,016,267	3,186,067	1,830,200	420,000	411,867	831,867	2.20
2005	7,017,844	3,197,232	3,820,612	435,000	418,549	853,549	4.48
2006	6,424,971	3,172,882	3,252,089	1,020,000	662,774	1,682,774	1.93
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

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	
1999	\$ 3,740,179	\$ 2,417,775	\$ 1,322,404	\$ 495,963	\$ 237,636	\$ 733,599	1.80
2000	4,089,381	2,236,111	1,853,270	421,516	216,776	638,292	2.90
2001	3,991,295	2,656,382	1,334,913	399,933	197,169	597,102	2.24
2002	4,039,448	2,726,975	1,312,473	458,918	137,622	596,540	2.20
2003	4,077,482	2,649,454	1,428,028	473,329	132,214	605,543	2.36
2004	4,096,412	3,038,939	1,057,473	455,179	110,520	565,699	1.87
2005	4,182,115	3,128,119	1,053,996	522,956	114,388	637,344	1.65
2006	4,842,901	4,270,296	572,605	511,626	63,233	574,859	1.00
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

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets 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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School		Building Permits		Unemployment
					Enrollment	Age	Number	Value	
1999	40,283	\$ 575,362,089	\$ 14,283	30.8	6,954		886	\$ 18,913,173	6.2%
2000	40,105	587,140,208	14,640	32.3	6,788		859	39,494,923	6.1%
2001	40,105	601,818,713	15,006	32.3	6,761		893	26,052,549	9.3%
2002	40,105	616,864,181	15,381	32.3	6,603		1,008	39,705,174	12.1%
2003	39,825	627,871,373	15,766	32.3	6,327		1,061	21,369,545	13.9%
2004	39,825	643,568,157	16,160	32.3	6,088		1,152	37,963,075	11.1%
2005	39,825	659,657,361	16,564	32.3	5,862		966	30,041,025	9.0%
2006	39,825	676,148,795	16,978	32.3	5,625		1,063	27,328,144	8.6%
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%

SOURCE: US Census Bureau, Muskegon Area Intermediate School District (MAISD), City of Muskegon Inspections Department

**City of Muskegon
PRINCIPAL EMPLOYERS**

Current Year and Nine Years Ago

Employer	2008			1999		
	Employees	Rank	Percentage of total City employment	Employees	Rank	Percentage of total City employment
Mercy General Health Partners	1,714	1	9.5%	1,458	1	8.0%
State of Michigan	1,064	2	5.9%	901	5	4.9%
County of Muskegon	852	3	4.7%	1,000	3	5.5%
Muskegon Public Schools	743	4	4.1%	975	4	5.3%
ADAC Plastics	494	5	2.7%	231	10	1.3%
Johnson Technology	481	6	2.7%	-	-	0.0%
Verizon	350	7	1.9%	763	6	4.2%
City of Muskegon	270	8	1.5%	-	-	0.0%
Sappi Fine Paper (Formerly SD Warren)	200	9	1.1%	348	8	1.9%
Brunswick	174	10	1.0%	553	7	3.0%
Hackley Hospital	-	-	0.0%	1,183	2	6.5%
SPX	-	-	0.0%	300	9	1.6%

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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Administration	1.70	1.70	1.70	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Affirmative Action	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Cemetaries	3.52	3.52	3.52	3.52	3.52	3.52	3.25	3.00	3.25	3.25
City Assessors Office	5.50	-	-	-	-	-	-	-	-	-
City Clerk & Elections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
City Commission	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
City Hall Maintenance	1.23	1.20	1.20	1.25	1.20	1.00	1.00	1.00	1.00	1.00
City Manager's Office	2.05	2.05	3.05	2.75	1.75	1.75	1.75	1.75	1.75	1.75
City Treasurer's Office	6.50	6.00	6.00	6.00	6.00	5.00	5.00	5.00	4.00	5.00
Civil Service	2.00	2.00	2.00	3.00	3.00	2.00	2.00	2.00	2.00	2.00
Community Event Support	-	-	0.60	0.20	0.20	-	-	-	-	-
Environmental Services	16.00	5.00	4.00	4.00	4.00	3.50	2.00	2.00	2.00	2.00
Farmers Market	0.12	0.12	0.12	0.12	0.12	0.12	-	-	-	-
Finance Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Fire	46.00	44.00	44.00	44.00	43.00	41.00	40.00	38.00	38.00	38.00
Fire Safety Inspections	-	13.00	13.00	12.00	13.00	12.00	10.00	12.00	12.00	12.00
Forestry	2.68	2.68	2.68	2.18	1.93	0.93	-	-	-	-
General Recreation	0.78	0.78	0.78	0.78	2.24	1.24	1.00	1.17	1.33	1.66
Income Tax Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Information Systems	2.00	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
Inner City Recreation	1.46	1.46	1.46	1.46	-	-	-	-	-	-
Parking	0.30	0.30	0.30	0.30	0.30	-	-	-	-	-
Parks	10.03	10.03	11.53	11.53	10.53	9.68	8.48	8.25	8.15	8.15
Planning, Zoning & Economic Development	8.00	8.00	7.50	7.50	7.50	6.50	6.00	6.00	6.00	6.00
Police	102.00	102.00	102.00	102.00	96.00	94.00	94.00	94.00	94.00	94.00
Sanitation	2.10	2.10	1.10	1.25	1.25	1.10	1.10	1.00	1.00	1.00
MVH-Major Streets	13.35	13.35	13.75	14.70	15.30	15.45	15.25	16.00	17.75	15.75
MVH-Local Streets	7.20	7.20	7.40	7.20	7.20	7.00	7.00	7.00	7.00	6.00
MVH-State Trunklines	1.60	1.60	1.60	1.60	1.60	2.00	2.00	2.00	-	-
Highway Non-Chargeables	0.20	0.20	-	-	-	-	-	-	-	-
Street Lighting	0.10	0.10	0.10	0.10	-	-	-	-	-	-
Walker Arena	0.12	0.12	0.12	0.12	0.12	0.12	-	-	-	-
Community Development	6.00	6.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00
Home Program	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Sewer Maintenance	14.40	14.40	14.40	14.40	15.15	14.55	15.05	16.00	16.20	15.20
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Water Maintenance	16.15	16.15	15.65	15.65	15.65	15.15	14.65	13.00	12.50	13.50
Hartshorn Marina Fund	0.79	0.79	0.79	0.79	0.79	0.79	0.67	0.73	0.67	0.34
Public Service Building	3.30	3.30	3.30	3.30	3.30	3.65	3.85	3.45	3.45	3.45
Engineering	8.90	8.90	9.40	9.35	9.40	7.70	7.70	7.45	7.45	7.45
Equipment	8.67	7.70	7.70	7.70	7.70	8.00	8.00	8.95	8.25	8.25
	320.00	314.00	314.00	315.00	308.00	294.00	284.00	284.00	282.00	280.00

SOURCE: City of Muskegon Finance Department

City of Muskegon

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Administrative Services										
Elections										
Number of registered voters	23,369	23,100	23,457	23,931	23,904	25,261	25,918	26,028	26,345	27,678
Number of votes cast:										
Last general election	9,029	12,054	12,054	8,916	8,916	14,169	14,169	10,410	10,410	15,271
Last city election	3,069	3,069	3,840	3,840	4,325	4,325	4,022	4,022	1,101	1,101
Percentage of registered voters voting:										
Last general election	39%	52%	51%	37%	37%	56%	55%	40%	40%	55%
Last city election	13%	13%	16%	16%	18%	17%	16%	15%	4%	4%
Financial Services										
Property Tax Bills	N/A	15,854	15,804	15,586	15,428	15,403	15,404	15,354	15,376	15,350
Income Tax Returns	N/A	N/A	N/A	25,135	25,043	24,378	23,884	23,493	23,141	22,598
Paper Check Issued to Vendors	3,957	3,850	3,922	4,012	3,784	3,405	3,205	3,248	3,347	3,346
Electronic Payments to Vendors	496	571	662	651	746	752	828	800	772	763
Public Safety										
Fire Protection										
Number of firefighter and officer positions	45	45	45	44	42	41	41	41	41	41
Number of emergency calls	3,823	3,693	3,818	3,878	3,656	4,116	4,206	4,092	4,171	4,298
Police Protection										
Number of sworn officer positions	91	91	91	85	83	83	83	84	84	84
Part I (Major) Crimes	4,011	3,537	3,429	3,504	2,971	3,360	3,303	3,495	2,997	3,107
Public Works										
Refuse Collected (Tons per Year)	12,078	12,211	11,718	11,420	11,780	11,925	11,074	11,192	10,375	10,401
Recyclables Collected (Tons per Year)	815	897	838	808	775	779	588	559	629	626
Water & Sewer										
Number of consumers	14,917	14,917	14,917	14,917	14,917	14,917	14,455	14,412	14,364	13,131
Average daily water consumption (GPD)	9,269,000	8,498,000	9,877,000	9,453,000	9,453,000	8,870,000	9,582,000	8,998,000	9,314,000	8,879,000
Water main breaks repaired	11	13	12	12	19	10	5	13	21	34
Sewer flows (Millions Gallons per Year)	2,070	1,718	1,994	1,477	1,387	1,475	1,700	2,040	1,945	2,181
Sewer Service Calls	716	925	799	661	624	568	638	605	598	533

SOURCE: City of Muskegon Departments

City of Muskegon

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public Safety										
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
Highways, Streets and Bridges										
Miles of Streets	197.56	197.51	197.52	197.39	197.96	196.95	196.95	197.48	197.79	197.79
Number of streetlights	3,085	3,115	3,111	3,114	3,123	3,111	3,159	3,159	3,134	3,134
Culture and Recreation										
Number of parks (acres)	611	611	612	612	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
Sewer										
Sanitary sewers (miles)	174.16	174.97	175.01	175.33	175.33	178.02	179.41	175.74	177.04	177.04
Storm sewers (miles)	177.30	177.97	178.29	178.57	178.57	178.61	179.23	180.48	183.25	183.60
Water										
Water mains (miles)	191.62	192.30	192.60	193.09	193.66	194.14	194.14	194.15	195.63	195.58

SOURCE: City of Muskegon Departments

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

April 8, 2009

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2008 and have issued our report thereon dated April 8, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Muskegon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Muskegon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon's internal control over financial reporting.

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

A *control deficiency* exists when the design operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 2, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

City Commission
April 8, 2009
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 1 and 2 to be material weaknesses.

Compliance

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

The City of Muskegon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Muskegon's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley De Long, P.C.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

April 8, 2009

City Commission
City of Muskegon
Muskegon, Michigan

Compliance

We have audited the compliance of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as Finding 3 in the accompanying Schedule of Findings and Responses.

Internal Control Over Compliance

The management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

City Commission
April 8, 2009
Page 2

Internal Control Over Compliance—Continued

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Muskegon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Muskegon's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2008 and have issued our report thereon dated April 8, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley De Long, P.C.

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2008	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2008
<i>U.S. Department of Agriculture</i>						
Passed through Michigan Department of Natural Resources Urban & Community Forestry Program 08-19	10.664	\$ 3,000	\$ -	\$ 3,000	\$ 3,000	\$ -
<i>U.S. Department of Housing and Urban Development</i>						
Direct programs						
Community Development Block Grant	14.218					
B-07-MC-26-0026		1,018,704	472,725	721,382	248,657	-
B-08-MC-26-0026		984,207	-	143,492	622,294	478,802
Program Income		72,087	-	72,087	72,087	-
Total Community Development Block Grant		2,074,998	472,725	936,961	943,038	478,802
Direct programs						
Home Investment Partnership Program	14.239					
M-04-MC-26-0215		337,937	1,638	1,638	-	-
M-05-MC-26-0215		320,839	-	3,811	3,811	-
M-06-MC-26-0215		301,767	7,000	21,027	24,817	10,790
M-07-MC-26-0215		298,923	98,591	208,365	109,774	-
M-08-MC-26-0215		290,049	-	2,915	80,852	77,937
Program Income		36,196	-	36,196	36,196	-
Total Home Investment Partnership Program		1,585,711	107,229	273,952	255,450	88,727
Direct programs						
Lead-Based Paint Hazard Control in Privately-Owned Housing FR-5100-N-20A	14.900	2,079,492	7,655	693,652	903,666	217,669
Total U.S. Department of Housing and Urban Development		5,740,201	587,609	1,904,565	2,102,154	785,198

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2008	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2008
U.S. Department of Justice						
Direct programs						
Bulletproof Vest Partnership Grant	16.607	\$ 2,821	-	\$ 2,821	\$ 2,821	-
2006 Grant		7,788	-	1,648	1,648	-
2007 Grant		10,609	-	4,469	4,469	-
Total Bulletproof Vest Partnership Grant						
Passed through the Ottawa County	16.738					
WEMET Multi-Jurisdictional Drug Enforcement CO-OP		36,825	10,578	36,824	26,246	-
70834-908B		31,188	-	-	9,907	9,907
70834-109B						
Total WEMET Multi-Jurisdictional Drug Enforcement CO-OP		68,013	10,578	36,824	36,153	9,907
Total U.S. Department of Justice		78,622	10,578	41,293	40,622	9,907
U.S. Department of Transportation, Federal Highway Administration						
Passed through the Michigan Department of Transportation						
Highway Planning and Construction Program	20.205	960,000	396,474	396,474	-	-
Proj HPSL0661 (016) Fed Item RR-5086 Contract 06-5195						
TOTAL FEDERAL ASSISTANCE		\$ 6,781,823	\$ 994,661	\$ 2,345,332	\$ 2,145,776	\$ 795,105

City of Muskegon
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended December 31, 2008

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. 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 financial statements for the year ended December 31, 2008 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements for the year ended December 31, 2008	\$		40,622
General Fund			1,662,437
Major Street and Trunkline Fund			2,744,798
Other governmental funds			4,447,857
Plus program income			108,283
Less MDOT contracted projects as shown below			(2,410,364)
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$		2,145,776

3. The Michigan Department of Transportation (MDOT) requires that cities report all federal and state grants pertaining to their city. During the year ended December 31, 2008, the federal aid received and expended by the City was \$2,410,364 for contracted projects as shown below. The City also received \$396,474 for expenditures in the prior year on negotiated projects. Contracted projects are defined as projects performed by private contractors and paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out.

	Federal CFDA number	Revenue Recognized	Federal Expenditures
U.S Department of Transportation, Federal Highway Administration (contracted projects)			
Passed through the Michigan Department of Transportation	20.205		
Highway Planning and Construction Program			
Proj CM0861 (386) Fed Item RR6338/RR6026 Contract 07-5722		\$ 197,100	\$ 197,100
Proj STP0761 (018) Fed Item RR5750 Contract 07-5303		197,558	197,558
Proj STP0761 (026) Fed Item RR5836 Contract 07-5402		252,875	252,875
Proj STP0761 (029) Fed Item RR5931 Contract 07-5474		209,800	209,800
Proj STP0861 (377) Fed Item RR6169 Contract 07-5693		230,026	230,026
Proj HPSL0861 (383) Fed Item RR6325 Contract 08-5123		575,078	575,078
Proj HPSL0761 (012) Fed Item RR5629 Contract 07-5158		747,927	747,927
Total U.S. Department of Transportation, Federal Highway Administration (contracted projects)		\$ 2,410,364	\$ 2,410,364

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
 Year ended December 31, 2008

SECTION I—SUMMARY OF AUDITORS' RESULTS

A. Financial Statements

1. Type of auditors' report issued: **Unqualified**
2. Internal control over financial reporting:
 - Material weakness(es) identified? X yes no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported
3. Noncompliance material to financial statements noted? yes X no

B. Federal Awards

1. Internal control over major programs:
 - Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported
2. Type of auditors' report issued on compliance for major programs: **Unqualified**
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no

4. Identification of major programs:

CFDA Number(s)

Name of Federal Program

U.S. Department of Housing and Urban Development

14.900

Lead-Based Paint Hazard Control in Privately-Owned Housing

5. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**
6. Auditee qualified as low-risk auditee? X yes no

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended December 31, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

2008 Finding No. 1: MATERIAL WEAKNESS—Capital Asset Recordkeeping Procedures

Criteria: Capital asset additions should be identified and maintained in detailed capital asset records.

Condition: During our detailed testing of capital outlay expenditures, we noted items which qualified as capital assets within the City’s capitalization policy, which were not recorded in the City’s detailed capital asset records. We also noted that some street infrastructure managed by the Michigan Department of Transportation (MDOT) was not recorded in the City’s detailed capital asset records.

Cause: The City personnel inadvertently overlooked capital assets within capital outlay expenditure general ledger accounts and did not record all MDOT projects.

Effect: Capital assets reported in the government-wide (full accrual) financial statements would have been understated. However, after the assets were identified, the City properly reported the additional capital assets.

Recommendation: Capital assets for governmental activities should be more carefully identified and included in the government-wide (full accrual) financial statements.

City Response: We concur with this finding and will train staff to further improve capital expenditure recording and review procedures.

2008 Finding No. 2: MATERIAL WEAKNESS—Investment Function Segregation of Duties

Criteria: Effective segregation of duties is an important part of controls for investment transactions to ensure that errors and misappropriation of assets are timely detected.

Condition: During our testing of investment procedures, we noted that the same individual is responsible for oversight of investments, making day-to-day investment decisions, opening and reviewing investment statements, transferring funds between accounts, and participating in recording of investment activity in the City’s accounting records.

Cause: The City’s current alignment of responsibilities affords uninterrupted processing of transactions, if performed by one individual.

Effect: An error or misappropriation of assets could occur and not be detected in a timely manner by City staff.

Recommendation: Responsibilities within the investment function should be further segregated.

City Response: The City believes adequate controls are in place for the investment function, given the limited staffing resources available. Investments are regularly reviewed and reconciled by a second individual.

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended December 31, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

COMPLIANCE

U.S. Department of Housing and Urban Development

2008 Finding No. 3: Lead-Based Paint Hazard Control in Privately-Owned Housing

CFDA: 14.900

Award Number: FR-5100-N-20A

Award Year End: December 31, 2008

Specific Requirement: Allowable Costs/Cost Principles

Criteria: The cost principle of OMB Circular A-87 requires, "...Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. ...Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports must be prepared at least monthly and must coincide with one or more pay periods and they must be signed by the employee."

Condition: During our detailed testing, we noted one employee whose wages and benefits were charged partially to the grant that did not have proper time and effort documentation.

Cause: The City was unaware of the time documentation requirements.

Questioned Costs: \$34,985, which represents the portion of salaries and benefits charged to the grant for all employees that did not have adequate documentation.

Context: One employee, for which personnel activity reports or semi-annual certifications were required, did not have adequate documentation.

Effect: The salaries and benefits charged to the Lead-Based Paint grant for the one employee could be disallowed.

Recommendation: The City should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required documentation.

City Response: The City recognizes this federal requirement and will put in place procedures to better document employee time allocations.

SIGNIFICANT DEFICIENCIES

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

April 8, 2008

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 December 31, 2007 dated June 24, 2008.

SECTION II – FINANCIAL STATEMENT FINDINGS

COMPLIANCE

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

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Capital Asset Recordkeeping Procedures

Condition: During the year ended December 31, 2007, we noted items which qualified as capital assets within the City's capitalization policy which were not recorded in the City's detailed capital asset records.

Recommendation: Capital assets for governmental activities should be more carefully identified and included in the government-wide (full accrual) financial statements.

Current Status: See 2008 Finding No. 1 for a similar finding noted during the single audit for the year ended December 31, 2008.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

COMPLIANCE

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

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,



Timothy J. Paul
Finance Director

CORRECTIVE ACTION PLAN

April 8, 2009

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 December 31, 2008.

Name and address of independent public accounting firm:

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

Audit period: December 31, 2008

The findings from the Schedule of Findings and Responses for the year ended December 31, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION II – FINANCIAL STATEMENT FINDINGS

COMPLIANCE

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

SIGNIFICANT DEFICIENCIES

2008 Finding No. 1: MATERIAL WEAKNESS—Capital Asset Recordkeeping Procedures

Recommendation: Capital assets for governmental activities should be more carefully identified and included in the government-wide (full accrual) financial statements.

Action Taken: We concur with this finding and will train staff to further improve capital expenditure recording and review procedures.

SECTION II – FINANCIAL STATEMENT FINDINGS—Continued

SIGNIFICANT DEFICIENCIES—Continued

2008 Finding No. 2: MATERIAL WEAKNESS—Investment Function Segregation of Duties

Recommendation: Responsibilities within the investment function should be further segregated.

Action Taken: The City believes adequate controls are in place for the investment function, given the limited staffing resources available. Investments are regularly reviewed and reconciled by a second individual. Nonetheless, opportunities for further segregation will be explored.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

COMPLIANCE

U.S. Department of Housing and Urban Development

2008 Finding No. 3: Lead-Based Paint Hazard Control in Privately-Owned Housing

Recommendation: The City should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required documentation.

Action Taken: Procedures have been put in place to document employee time in accordance with the federal regulation.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

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

Sincerely,



Timothy J. Paul
Finance Director