

**CITY OF MUSKEGON HEIGHTS,
MICHIGAN**

**FINANCIAL STATEMENTS AND
SINGLE AUDIT**

FOR THE YEAR ENDED DECEMBER 31, 2014



Vredeveld Haefner LLC

CITY OF MUSKEGON HEIGHTS

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CITY OF MUSKEGON HEIGHTS

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INDEPENDENT AUDITORS' REPORT

June 30, 2015

To the City Council
City of Muskegon Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan, as of December 31, 2014, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 39 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wendell Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Muskegon Heights (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and supplementary information.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide key financial highlights for the 2014 fiscal year as follows:

- Received a SAFER grant from FEMA for the employment of 8 firefighters fully funded for 2 years. Also received a new COPS grant to fund 1 police officer for 3 years.
- The City was awarded a \$1.8 million grant to eliminate blight through MSHDA's Hardest Hit Funding.
- Expansion of major companies in Muskegon Heights. Versatile Fabrication purchased property and expanded their business as well as growth at Quality Tool & Plating and Webb Chemical.

Overview of the Financial Statements

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

Government-wide financial statements The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and streets, culture and recreation and community development. The business-type activities of the City include sewer, water, and water supply operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for which the City is financially accountable. The Brownfield Redevelopment Authority was formed in prior years and no financial activity or balances are reported for 2014. Information

for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the general fund to demonstrate legal compliance.

Proprietary funds The City maintains one type of proprietary fund (enterprise funds). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, and water supply operations. The City does not use internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water, and water supply operations, all of which are considered to be major funds of the City.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. This is limited to this discussion and analysis, required supplementary information, combining statements and schedules and the single audit section.

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$13,424,637 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$4,518,300	\$5,261,397	\$9,537,344	\$8,377,080	\$14,055,644	\$13,638,477
Capital assets	7,342,023	7,358,560	16,425,415	17,170,717	23,767,438	24,529,277
Total assets	11,860,323	12,619,957	25,962,759	25,547,797	37,823,082	38,167,754
Liabilities						
Current liabilities	1,161,692	1,702,523	500,143	333,256	1,661,835	2,035,779
Long-term liabilities	6,751,537	6,268,767	14,849,426	15,479,267	21,600,963	21,748,034
Total liabilities	7,913,229	7,971,290	15,349,569	15,812,523	23,262,798	23,783,813
Deferred inflows	1,135,647	1,272,815	-	-	1,135,647	1,272,815
Net Position						
Net Investment in capital assets	4,658,663	5,012,281	2,836,006	2,991,030	7,494,669	8,003,311
Restricted	628,942	516,718	1,338,373	1,337,968	1,967,315	1,854,686
Unrestricted	(2,476,158)	(2,153,147)	6,438,811	5,406,276	3,962,653	3,253,129
Total net position	\$2,811,447	\$3,375,852	\$10,613,190	\$9,735,274	\$13,424,637	\$13,111,126

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of \$1,967,315 represents resources that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the City reports positive balances in all three categories of net position for business-type activities and the City as a whole. Governmental-type activities reported negative unrestricted net position at year end.

Statement of Activities The City's total revenue for the fiscal year ended December 31, 2014, was \$14,800,826. The total cost of all programs and services was \$14,487,315 of which \$1,766,922 represents depreciation expense. This results in a net position increase at the end of the fiscal year of \$313,511. The following table presents a summary of the changes in net position for the years ended December 31.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$1,732,811	\$1,060,293	\$6,965,495	\$6,865,988	\$8,698,306	\$7,926,281
Operating grants and contributions	1,854,240	1,843,830	-	-	1,854,240	1,843,830
Capital grants and contributions	-	984,562	-	-	-	984,562
General revenues						
Property taxes	1,932,427	1,942,859	-	-	1,932,427	1,942,859
Income taxes	894,380	905,087	-	-	894,380	905,087
State shared revenues	1,407,479	1,364,382	-	-	1,407,479	1,364,382
Investment earnings	1,576	824	12,418	10,201	13,994	11,025
Total revenues	7,822,913	8,101,837	6,977,913	6,876,189	14,800,826	14,978,026
Expenses						
General government	1,550,655	2,061,739	-	-	1,550,655	2,061,739
Public safety	3,945,400	3,329,838	-	-	3,945,400	3,329,838
Public works and streets	2,375,470	2,614,620	-	-	2,375,470	2,614,620
Culture and recreation	97,891	96,080	-	-	97,891	96,080
Community development	562,404	715,318	-	-	562,404	715,318
Interest on long-term debt	125,498	90,221	-	-	125,498	90,221
Sewer	-	-	1,181,200	1,260,092	1,181,200	1,260,092
Water	-	-	1,772,425	1,363,024	1,772,425	1,363,024
Water supply	-	-	2,876,372	2,708,188	2,876,372	2,708,188
Total expenses	8,657,318	8,907,816	5,829,997	5,331,304	14,487,315	14,239,120
Transfers in (out)	270,000	360,000	(270,000)	(360,000)	-	-
Increase (decrease) in net position	(564,405)	(445,979)	877,916	1,184,885	313,511	738,906
Net position – beginning	3,375,852	3,821,831	9,735,274	8,550,389	13,111,126	12,372,220
Net position – ending	\$2,811,447	\$3,375,852	\$10,613,190	\$9,735,274	\$13,424,637	\$13,111,126

Governmental Activities The preceding table shows that the governmental activities decreased the City's net position by \$564,405 during this fiscal year. This decrease is primarily the result of an increase in the other post-employment benefits liability.

Business-type Activities Business-type activities increased the City's net position by \$877,916 primarily as a result of cost containment, sewer rate increases and water supply sales.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,059,558 a decrease of \$121,702 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the general fund of \$1,185,074 was unassigned. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures.

Fund balance of the general fund decreased by \$233,921, during the current fiscal year. The change in fund balance was primarily the result of the capital expenditures from a prior year bond issuance.

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

The City's enterprise operations consist of three separate and distinct activities. The sewer, water and water supply funds provide service to most residents and businesses of the City. The sewer, water and water supply funds experienced increases in net position of \$139,369, \$(232,914), and \$971,461, respectively.

General Fund Budgetary Highlights

Significant fluctuations between original, final budgets and actual were the result of

- The City Manager resigned from employment which increased expenses for the department due to payment of accrued leave time.
- Staffing was increased in the Police Department to help manage ongoing crime related issues.

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of December 31, 2014, amounted to \$23,767,438 (net of accumulated depreciation). Of this amount, \$7,342,023 was for its governmental type activities and \$16,425,415 was for its business-type activities. This investment in capital assets includes land, buildings and equipment, vehicles and infrastructure.

Major capital asset events during the current fiscal year included Hackley street, city hall improvements, and the purchase of plow truck accessories.

Additional information on the City's capital assets can be found in Note 7 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$21,600,963. Of this amount, \$6,751,537 was for governmental activities while \$14,849,426 was for business-type activities.

The City's total long-term debt increased by \$147,071 during the current fiscal year primarily as a result of increasing unfunded other post-employment benefits offset by current year payments of debt.

Additional information on the City's long-term debt can be found on Note 10 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2015 fiscal year:

- The City will lose its two main water customers for bulk water purchases from the City's filtration plant. The City of Norton Shores and Fruitport Township will no longer purchase water from the City of Muskegon Heights and will become customers of the City of Muskegon in April, 2015.
- The continued assessment of the City's infrastructure (streets, water & sewer mains) is necessary to budget for potential system breaks and repairs.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director, City of Muskegon Heights, 2724 Peck Street, Muskegon Heights, MI 49444.

BASIC FINANCIAL STATEMENTS

CITY OF MUSKEGON HEIGHTS

STATEMENT OF NET POSITION

DECEMBER 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Assets				
Cash and pooled investments	\$ 1,810,353	\$ 8,454,669	\$ 10,265,022	\$ 264,333
Receivables				
Accounts	112,660	985,680	1,098,340	2,983
Property taxes	605,042	-	605,042	23,070
Income taxes	190,008	-	190,008	-
Special assessment receivable	54,009	-	54,009	-
Due from other governments	1,461,906	-	1,461,906	388,194
Inventory	62,081	22,543	84,624	-
Prepaid items	141,102	-	141,102	-
Internal balances	81,139	(81,139)	-	-
Capital assets				
Land	259,408	40,012	299,420	294,635
Construction in progress	259,453	-	259,453	-
Depreciable capital assets, net	6,823,162	16,385,403	23,208,565	483,793
Bond discounts	-	155,591	155,591	-
Total assets	<u>11,860,323</u>	<u>25,962,759</u>	<u>37,823,082</u>	<u>1,457,008</u>
Liabilities				
Accounts payable	486,908	373,552	860,460	650
Accrued liabilities	53,241	126,322	179,563	183
Due to other governments	577,230	269	577,499	287,494
Unearned revenue	44,313	-	44,313	-
Noncurrent liabilities				
Other post-employment benefits	3,525,379	809,081	4,334,460	-
Due within one year	405,392	803,545	1,208,937	-
Due in more than one year	2,820,766	13,236,800	16,057,566	-
Total liabilities	<u>7,913,229</u>	<u>15,349,569</u>	<u>23,262,798</u>	<u>288,327</u>
Deferred inflows of resources				
Unavailable revenue - taxes	1,135,647	-	1,135,647	95,703
Net position				
Net investment in capital assets	4,658,663	2,836,006	7,494,669	778,428
Restricted for				
Debt service	-	1,338,373	1,338,373	-
Major streets	343,059	-	343,059	-
Local streets	328	-	328	-
Cemetery perpetual care	285,555	-	285,555	-
Unrestricted (deficit)	(2,476,158)	6,438,811	3,962,653	294,550
Total net position	<u>\$ 2,811,447</u>	<u>\$ 10,613,190</u>	<u>\$ 13,424,637</u>	<u>\$ 1,072,978</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 1,550,655	\$ 1,149,194	\$ 34,903	\$ -	\$ (366,558)
Public safety	3,945,400	270,391	281,109	-	(3,393,900)
Public works and streets	2,375,470	247,360	945,864	-	(1,182,246)
Culture and recreation	97,891	14,535	2,843	-	(80,513)
Community development	562,404	51,331	589,521	-	78,448
Interest on long-term debt	125,498	-	-	-	(125,498)
Total governmental activities	8,657,318	1,732,811	1,854,240	-	(5,070,267)
Business-type activities					
Sewer	1,181,200	1,403,069	-	-	221,869
Water	1,772,425	1,621,025	-	-	(151,400)
Water supply	2,876,372	3,941,401	-	-	1,065,029
Total business-type activities	5,829,997	6,965,495	-	-	1,135,498
Total primary government	\$ 14,487,315	\$ 8,698,306	\$ 1,854,240	\$ -	\$ (3,934,769)
Component units					
Downtown Development Authority	\$ 211,892	\$ 37,306	\$ -	\$ -	\$ (174,586)
Total component units	\$ 211,892	\$ 37,306	\$ -	\$ -	\$ (174,586)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Downtown</u> <u>Development</u> <u>Authority</u>
Changes in net position				
Net (expense) revenue	\$ (5,070,267)	\$ 1,135,498	\$ (3,934,769)	\$ (174,586)
General revenues				
Property taxes	1,932,427	-	1,932,427	181,723
Income taxes	894,380	-	894,380	-
State shared revenues - unrestricted	1,407,479	-	1,407,479	-
Interest earnings	1,576	12,418	13,994	60
Transfers - internal activities	<u>270,000</u>	<u>(270,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>4,505,862</u>	<u>(257,582)</u>	<u>4,248,280</u>	<u>181,783</u>
Change in net position	(564,405)	877,916	313,511	7,197
Net position, beginning of year	<u>3,375,852</u>	<u>9,735,274</u>	<u>13,111,126</u>	<u>1,065,781</u>
Net position, end of year	<u>\$ 2,811,447</u>	<u>\$ 10,613,190</u>	<u>\$ 13,424,637</u>	<u>\$ 1,072,978</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 1,216,700	\$ 593,653	\$ 1,810,353
Receivables			
Accounts	86,960	25,700	112,660
Property taxes	605,042	-	605,042
Income taxes	190,008	-	190,008
Special assessment	-	54,009	54,009
Due from other funds	616,548	201,842	818,390
Due from other governments	609,294	852,612	1,461,906
Inventory	32,462	-	32,462
Prepaid items	141,102	-	141,102
Total assets	<u>\$ 3,498,116</u>	<u>\$ 1,727,816</u>	<u>\$ 5,225,932</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Accounts payable	\$ 386,157	\$ 100,751	\$ 486,908
Accrued liabilities	30,912	3,929	34,841
Due to other funds	22,901	714,350	737,251
Due to other governments	395,605	181,625	577,230
Deferred revenue	39,165	5,148	44,313
Total liabilities	<u>874,740</u>	<u>1,005,803</u>	<u>1,880,543</u>
Deferred inflows of resources			
Unavailable revenue - long-term receivables	21,010	93,071	114,081
Unavailable revenue - taxes	1,171,750	-	1,171,750
Total deferred inflows of resources	<u>1,192,760</u>	<u>93,071</u>	<u>1,285,831</u>
Fund balances			
Nonspendable			
Inventory	32,462	-	32,462
Prepays	141,102	-	141,102
Restricted			
Streets	-	343,387	343,387
Cemetery care	-	285,555	285,555
Capital projects	71,978	-	71,978
Unassigned	1,185,074	-	1,185,074
Total fund balances	<u>1,430,616</u>	<u>628,942</u>	<u>2,059,558</u>
Total liabilities deferred inflows and fund balances	<u>\$ 3,498,116</u>	<u>\$ 1,727,816</u>	<u>\$ 5,225,932</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

DECEMBER 31, 2014

Fund balances - total governmental funds	\$ 2,059,558
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	259,408
Add - construction in progress	259,453
Add - capital assets (net of accumulated depreciation)	6,823,162
Certain receivables are not considered available at year-end and therefore are not recognized as revenue in the funds.	
Add - receivable from State of Michigan	36,103
Certain assets do not represent current expendable financial resources and therefore are not recognized in the funds.	
Add - houses held for resale	29,619
Certain assets are not due and receivable in the current period and therefore are reported as unavailable revenue in the funds.	
Add - unavailable revenue	114,081
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences	(369,406)
Deduct - other post-employment benefits	(3,525,379)
Deduct - long-term debt	(2,856,752)
Deduct - accrued interest on bonds	<u>(18,400)</u>
Net position of governmental activities	<u>\$ 2,811,447</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Taxes			
Property	\$ 1,932,427	\$ -	\$ 1,932,427
Income	894,380	-	894,380
Intergovernmental revenues			
Federal	280,046	462,771	742,817
State	1,409,729	907,511	2,317,240
Other	126,750	-	126,750
Private grants	36,588	-	36,588
Licenses and permits	123,795	-	123,795
Charges for services	814,690	24,957	839,647
Fines	77,645	-	77,645
Interest earnings	1,576	11,594	13,170
Miscellaneous	660,111	42,326	702,437
Total revenues	<u>6,357,737</u>	<u>1,449,159</u>	<u>7,806,896</u>
Expenditures			
Current			
General government	1,700,667	-	1,700,667
Public safety	3,307,966	-	3,307,966
Public works and streets	909,097	806,925	1,716,022
Community development	9,835	515,106	524,941
Culture and recreation	77,053	-	77,053
Capital outlay	538,701	-	538,701
Debt service			
Principal	157,404	45,000	202,404
Interest	104,071	26,773	130,844
Total expenditures	<u>6,804,794</u>	<u>1,393,804</u>	<u>8,198,598</u>
Revenues over (under) expenditures	<u>(447,057)</u>	<u>55,355</u>	<u>(391,702)</u>
Other financing sources (uses)			
Transfers in	270,000	146,985	416,985
Transfers out	(56,864)	(90,121)	(146,985)
Total other financing sources (uses)	<u>213,136</u>	<u>56,864</u>	<u>270,000</u>
Net changes in fund balances	(233,921)	112,219	(121,702)
Fund balances, beginning of year	<u>1,664,537</u>	<u>516,723</u>	<u>2,181,260</u>
Fund balances, end of year	<u>\$ 1,430,616</u>	<u>\$ 628,942</u>	<u>\$ 2,059,558</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

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

FOR THE YEAR ENDED DECEMBER 31, 2014

Net changes in fund balances - total governmental funds	\$ (121,702)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	754,642
Deduct - depreciation expense	(771,179)

Certain accounts receivable are long-term in nature and are collectable over several years. However only the current collections are reflected as revenues on the fund statements.

Add - change in long-term receivables	20,155
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Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add - payments on long-term debt	209,282
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Some revenues reported in the statement of activities are not considered available and therefore are not reported as revenues in the funds.

Add - receipt from the State of Michigan	36,103
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - change in compensated absences	(12,067)
Deduct - change in houses held for sale	(5,000)
Deduct - change in other post-employment benefits	(679,985)
Add - change in accrued interest	<u>5,346</u>

Change in net position of governmental activities	<u>\$ (564,405)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

DECEMBER 31, 2014

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Assets				
Current assets				
Cash and pooled investments	\$ 385,784	\$ 164,033	\$ 6,566,479	\$ 7,116,296
Accounts receivable	444,284	352,461	188,935	985,680
Due from other funds	6,925	253,446	60,648	321,019
Inventory	-	20,587	1,956	22,543
Total current assets	<u>836,993</u>	<u>790,527</u>	<u>6,818,018</u>	<u>8,445,538</u>
Noncurrent assets				
Capital assets				
Land	2,246	-	37,766	40,012
Infrastructure and plant	3,693,989	2,027,853	27,960,560	33,682,402
Less accumulated depreciation	<u>(2,610,289)</u>	<u>(1,813,309)</u>	<u>(12,873,401)</u>	<u>(17,296,999)</u>
Net capital assets	1,085,946	214,544	15,124,925	16,425,415
Restricted cash and pooled investments	-	-	1,338,373	1,338,373
Bond discount	-	-	<u>155,591</u>	<u>155,591</u>
Total noncurrent assets	<u>1,085,946</u>	<u>214,544</u>	<u>16,618,889</u>	<u>17,919,379</u>
Total assets	<u>1,922,939</u>	<u>1,005,071</u>	<u>23,436,907</u>	<u>26,364,917</u>
Liabilities				
Current liabilities				
Accounts payable	154,417	28,907	190,228	373,552
Accrued liabilities	1,361	23,816	101,145	126,322
Due to other funds	9,911	78,848	313,399	402,158
Due to other governments	80	189	-	269
Current portion of long-term debt	<u>146,660</u>	<u>11,123</u>	<u>645,762</u>	<u>803,545</u>
Total current liabilities	<u>312,429</u>	<u>142,883</u>	<u>1,250,534</u>	<u>1,705,846</u>
Long-term liabilities				
Other post-employment benefits	270,288	200,294	338,499	809,081
Long-term debt, net of current portion	<u>104,952</u>	<u>426</u>	<u>13,131,422</u>	<u>13,236,800</u>
Total long-term liabilities	<u>375,240</u>	<u>200,720</u>	<u>13,469,921</u>	<u>14,045,881</u>
Total liabilities	<u>687,669</u>	<u>343,603</u>	<u>14,720,455</u>	<u>15,751,727</u>
Net position				
Net investment in capital assets	1,085,946	214,544	1,535,516	2,836,006
Restricted for debt service	-	-	1,338,373	1,338,373
Unrestricted	<u>149,324</u>	<u>446,924</u>	<u>5,842,563</u>	<u>6,438,811</u>
Total net position	<u>\$ 1,235,270</u>	<u>\$ 661,468</u>	<u>\$ 8,716,452</u>	<u>\$ 10,613,190</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds			
	Sewer	Water	Water Supply	Total
Operating revenue				
Charges for services	\$ 1,403,069	\$ 1,623,770	\$ 2,738,924	\$ 5,765,763
Charges for debt service and other	-	801	1,202,477	1,203,278
Total operating revenue	<u>1,403,069</u>	<u>1,624,571</u>	<u>3,941,401</u>	<u>6,969,041</u>
Operating expense				
Personnel services	114,552	166,619	331,105	612,276
Benefits	94,993	158,371	295,940	549,304
Contractual/professional services	848,405	1,204,094	163,157	2,215,656
Materials and supplies	11,825	80,812	126,664	219,301
Utilities	2,116	48,739	399,957	450,812
Repair and maintenance	11,786	1,665	49,931	63,382
Depreciation	74,089	33,181	888,473	995,743
Miscellaneous	23,434	82,492	12,008	117,934
Total operating expense	<u>1,181,200</u>	<u>1,775,973</u>	<u>2,267,235</u>	<u>5,224,408</u>
Operating income (loss)	<u>221,869</u>	<u>(151,402)</u>	<u>1,674,166</u>	<u>1,744,633</u>
Non-operating revenue (expense)				
Interest income	-	988	11,430	12,418
Interest expense	-	-	(609,135)	(609,135)
Total non-operating revenue (expense)	<u>-</u>	<u>988</u>	<u>(597,705)</u>	<u>(596,717)</u>
Income (loss) before transfers	221,869	(150,414)	1,076,461	1,147,916
Other financing sources and (uses)				
Transfers out	(82,500)	(82,500)	(105,000)	(270,000)
Changes in net position	139,369	(232,914)	971,461	877,916
Net position, beginning of year	<u>1,095,901</u>	<u>894,382</u>	<u>7,744,991</u>	<u>9,735,274</u>
Net position, end of year	<u>\$ 1,235,270</u>	<u>\$ 661,468</u>	<u>\$ 8,716,452</u>	<u>\$ 10,613,190</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 1,451,227	\$ 1,621,648	\$ 3,852,940	\$ 6,925,815
Payments to employees	(188,455)	(307,376)	(575,703)	(1,071,534)
Payments to suppliers	(823,471)	(1,407,620)	(638,535)	(2,869,626)
Net cash provided by (used in) operating activities	<u>439,301</u>	<u>(93,348)</u>	<u>2,638,702</u>	<u>2,984,655</u>
Cash flows from non-capital financing activities				
Loans (to) from other funds	(93,170)	(170,608)	216,777	(47,001)
Principal paid on note payable	(139,606)	-	-	(139,606)
Transfers out	(82,500)	(82,500)	(105,000)	(270,000)
Net cash provided by (used in) non-capital financing activities	<u>(315,276)</u>	<u>(253,108)</u>	<u>111,777</u>	<u>(456,607)</u>
Cash flows from capital and related financing activities				
Interest paid	-	-	(599,411)	(599,411)
Principal paid on long-term debt	-	-	(600,000)	(600,000)
Acquisitions of capital assets	-	-	(250,441)	(250,441)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(1,449,852)</u>	<u>(1,449,852)</u>
Cash flows from investing activities				
Interest income	-	988	11,430	12,418
Net increase (decrease) in cash and pooled investments	124,025	(345,468)	1,312,057	1,090,614
Cash and pooled investments, beginning of year	<u>261,759</u>	<u>509,501</u>	<u>6,592,795</u>	<u>7,364,055</u>
Cash and pooled investments, end of year	<u>\$ 385,784</u>	<u>\$ 164,033</u>	<u>\$ 7,904,852</u>	<u>\$ 8,454,669</u>
Cash flows from operating activities				
Operating income (loss)	\$ 221,869	\$ (151,402)	\$ 1,674,166	\$ 1,744,633
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	74,089	33,181	888,473	995,743
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	48,158	(2,923)	(88,461)	(43,226)
Inventory	-	(2,690)	13,013	10,323
Prepays	-	-	530	530
Accounts payable	74,095	12,872	99,639	186,606
Accrued liabilities	(2,596)	(4,078)	(13,045)	(19,719)
Accrued compensated absences	163	(10,009)	2,979	(6,867)
Accrued other post employment benefits	23,523	31,701	61,408	116,632
Net cash provided by (used in) operating activities	<u>\$ 439,301</u>	<u>\$ (93,348)</u>	<u>\$ 2,638,702</u>	<u>\$ 2,984,655</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

FIDUCIARY FUNDS STATEMENT OF NET POSITION

DECEMBER 31, 2014

	Private Purpose Trust Fund - John Hendrick Flower Fund	Agency Funds
Assets		
Cash and pooled investments	\$ -	\$ 582,180
Accounts receivable	-	9,961
Due from other governments	<u>3,030</u>	<u>251,412</u>
Total assets	<u>\$ 3,030</u>	<u>\$ 843,553</u>
Liabilities		
Accounts payable	\$ -	\$ 299,482
Due to other governments	<u>154</u>	<u>544,071</u>
Total liabilities	<u>154</u>	<u>\$ 843,553</u>
Net position	<u>\$ 2,876</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

***PRIVATE PURPOSE TRUST FUND
STATEMENT OF CHANGES IN NET POSITION***

FOR THE YEAR ENDED DECEMBER 31, 2014

	Private Purpose Trust Fund - John Hendrick Flower Fund
Additions	
Interest earnings	\$ <u> -</u>
Deductions	
Fees	<u> -</u>
Changes in net position	-
Net position, beginning of year	<u> 2,876</u>
Net position, end of year	<u>\$ 2,876</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskegon Heights, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. A separate section of the Basic Financial Statements provides detailed financial information on the discretely presented component units. The City has no blended component units.

Discretely Presented Component Units

The component unit column in the basic financial statements includes the financial data of the Downtown Development Authority (DDA). This entity is reported in a separate column and rows to emphasize that it is legally separate from the City. The City also has one additional component unit which had no financial assets or financial activity during the year (the Brownfield Redevelopment Authority). The DDA was formed to complete various projects in the downtown district. Funding for these projects will be provided through captured property taxes from various units of government. The members of the governing board of the DDA are appointed by the City Council. The budgets of the DDA must be approved by the City Council, and the City has the ability to significantly influence its operations. Financial statements are not separately issued for the DDA.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are changes between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *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 is 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 requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when 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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement-based grants, income taxes, fees, interest and other revenues use up to a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, reimbursement-based grants, income taxes, state revenue, fees, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental fund:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

The *Water Supply Enterprise Fund* is used to account for operations of the City water treatment plant and related assets utilized to treat and distribute water to the City and surrounding communities on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than perpetual trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs of governmental funds.

The *Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of City capital projects.

The *Private Purpose Trust Fund* is used to account for resources that are restricted for the benefit of other governments, organizations or individual.

The *Agency Fund* is used to account for payroll and the collection and disbursement of property taxes that are collected on behalf of outside governments.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General Fund. Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within a department subject to the condition that the total expenditures do not exceed the approved appropriations by department. Thus the legal level of budgetary control is at the department level. Supplemental appropriations were not necessary during the year.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal of these balances at any time similar to a demand deposit account.

Investments

Investments are stated at fair value at the balance sheet date.

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At year end allowances for uncollectible balances are immaterial.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Due to and Due from Other Funds

Interfund receivables and payables are short-term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

Inventory

All inventories are valued at original cost using the first-in/first-out (FIFO) method. Inventory represents parts, materials, supplies utilized in the various City operations as well as houses held for resale.

Capital Assets

Capital assets, which include land, construction in progress, buildings and equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	7-50
Equipment	5-40
Motor vehicles	5-25
Infrastructure	5-100

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Compensated Absences

Under contracts negotiated with employee groups, individual employees may have a vested right to receive payments for unused vacation and sick time benefits under formulas and conditions specified in the contracts. Accumulated vacation and sick time benefits of governmental funds is recorded on the statement of net position and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net position of the individual enterprise funds.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items, one of which arises under a modified accrual basis of accounting, which qualify for reporting in this category. Accordingly, unavailable revenue, is reported in the governmental funds balance sheet from taxes levied for the next fiscal year, and unavailable receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the entities governing board.
4. Assigned - the related assets can only be spent for a specific purpose identified by management as authorized by the governing board.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of other taxing units within the City limits. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue for one half of the levy in the current year and the balance is recognized in the following year.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

2. DEFICIT FUND BALANCE/NET POSITION

At December 31, 2014, the City had a deficit unrestricted net position in the governmental activities of \$2,476,158.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended December 31, 2014, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Expended</u>
General fund			
General government			
City Manager	\$207,893	\$265,385	\$57,492
Personnel	7,800	8,013	213
Elections	14,020	15,092	1,072
Income tax	66,605	67,596	991
Assessor	112,296	112,860	564
Clerk	98,283	99,797	1,514
Finance	229,385	232,758	3,373
Other general government	365,965	400,174	34,209
DTE Test and Tune	-	52,805	52,805
Public safety			
Police	1,919,246	2,051,168	131,922
Public works			
Refuse collection	608,500	619,646	11,146
Community development			
Planning	7,610	7,756	146
Capital outlay	530,916	538,701	7,785
Debt service			
Interest and fiscal charges	95,315	104,071	8,756
Nonmajor funds			
Major Streets			
Public works	545,296	548,841	3,545
Local Streets			
Public works	250,943	258,084	7,141
Community Development Block Grant			
Community and recreation	443,423	462,771	19,348
MSHDA			
Community and recreation	-	42,123	42,123

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments are as follows:

	Primary Government	Component Units	Fiduciary Funds	Total
Cash and pooled investments	\$10,265,022	\$264,333	\$582,180	\$11,111,535

Cash and pooled investments captions consist of the following at December 31, 2014:

Deposits and certificates of deposit	\$ 9,728,508
Mutual funds and securities	1,383,027
Total	\$11,111,535

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$9,456,443 of the City's bank balance of \$9,909,513 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating	Source
Mutual fund accounts				
PNC Government Money Market	N/A	\$ 7,024	Unrated	
Federated Treasury Cash Series	N/A	1,234,103	AAAm	S&P
Fidelity Advisor Floating Rate Fund	N/A	9,806	4 star	Morningstar
PIMCO Total Return Bond Fund	N/A	132,094	4 star	Morningstar
		\$1,383,027		

The above investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk 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. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$1,383,027 of investments the City's custodial credit risk exposure cannot be determined because the invested funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of individual funds at December 31, 2014 were as follows:

<u>Receivable fund</u>	<u>Payable fund</u>					<u>Total</u>
	<u>General fund</u>	<u>Sewer fund</u>	<u>Water fund</u>	<u>Water supply fund</u>	<u>Nonmajor governmental funds</u>	
General fund	\$ -	\$8,833	\$15,539	\$ 38,684	\$553,492	\$ 616,548
Nonmajor governmental funds	22,135	169	2,711	15,972	160,855	201,842
Sewer fund	34	-	47	6,844	-	6,925
Water fund	635	909	-	251,899	3	253,446
Water supply fund	97	-	60,551	-	-	60,648
Total	\$22,901	\$9,911	\$78,848	\$313,399	\$714,350	\$1,139,409

Interfund balances primarily reflect loans made from funds with cash and pooled investments to those funds requiring temporary cash flow.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended December 31, 2014 are as follows:

<u>Transfer out</u>	<u>Transfer in</u>		
	<u>General Fund</u>	<u>Non-major governmental funds</u>	<u>Total</u>
General Fund	\$ -	\$56,864	\$56,864
Enterprise			
Sewer	82,500	-	82,500
Water	82,500	-	82,500
Water Supply	105,000	-	105,000
Non-major governmental funds	-	90,121	90,121
Total	\$270,000	\$146,985	\$416,985

Transfers to the general fund represent payments to fund administrative costs from benefiting funds while transfers into other funds are generally operations subsidies.

7. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2014</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 259,408	\$ -	\$ -	\$ 259,408
Construction in progress	230,590	259,453	230,590	259,453
Total capital assets, not being depreciated	489,998	259,453	230,590	518,861
Capital assets, being depreciated				
Buildings and improvements	3,935,437	190,617	-	4,126,054
Equipment	1,381,218	98,052	61,429	1,417,841
Motor vehicles	2,058,622	437,110	42,298	2,453,434
Infrastructure	20,649,614	-	-	20,649,614
Total capital assets, being depreciated	28,024,891	725,779	103,727	28,646,943
Less accumulated depreciation for				
Buildings and improvements	1,337,054	158,547	-	1,495,601
Equipment	1,040,299	70,800	61,429	1,049,670
Motor vehicles	1,260,532	160,217	42,298	1,378,451
Infrastructure	17,518,444	381,615	-	17,900,059
Total accumulated depreciation	21,156,329	771,179	103,727	21,823,781
Net capital assets, being depreciated	6,868,562	(45,400)	-	6,823,162
Governmental Activities capital assets, net	\$ 7,358,560	214,053	230,590	7,342,023

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Balance January 1, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance December <u>31, 2014</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	40,012	-	-	40,012
Capital assets being depreciated				
Buildings and improvements	163,471	50,228	-	213,699
Equipment	1,778,428	200,213	-	1,978,641
Plant	22,285,177	-	-	22,285,177
Infrastructure	9,204,884	-	-	9,204,884
Total capital assets, being depreciated	33,431,960	250,441	-	33,682,401
Less accumulated depreciation for				
Buildings and improvements	78,496	8,512	-	87,008
Equipment	1,110,499	121,737	-	1,232,236
Plant	7,894,338	742,052	-	8,636,390
Infrastructure	7,217,922	123,442	-	7,341,364
Total accumulated depreciation	16,301,255	995,743	-	17,296,998
Net capital assets, being depreciated	17,130,705	(745,302)	-	16,385,403
Business-type Activities capital assets, net	\$17,170,717	\$(745,302)	\$ -	\$16,425,415
Downtown Development Authority (DDA)				
Capital assets, not being depreciated				
Land	\$294,635	\$ -	\$ -	\$294,635
Total capital assets, not being depreciated	294,635	-	-	294,635
Capital assets being depreciated				
Buildings and improvements	758,835	-	-	758,835
Infrastructure	88,387	-	-	88,387
Total capital assets, being depreciated	847,222	-	-	847,222
Less accumulated depreciation for				
Buildings and improvements	323,845	21,908	-	345,753
Infrastructure	13,257	4,419	-	17,676
Total accumulated depreciation	337,102	26,327	-	363,429
Net capital assets, being depreciated	510,120	(26,327)	-	483,793
DDA capital assets, net	\$804,755	\$(26,327)	\$ -	778,428

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

Governmental Activities	
General government	\$ 19,211
Public safety	53,790
Public works and streets	682,808
Culture and recreation	15,370
Total depreciation expense - governmental activities	771,179
Business-type Activities	
Sewer	\$ 74,089
Water	33,181
Water supply	888,473
Total depreciation expense - business-type activities	\$995,743

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

8. PENSION PLANS

Defined Benefit Plan

Plan Description

The various bargaining and non-bargaining unit employees of the City participate in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined rate, which for the current year was 0% to 94% of annual covered payroll. Participating employees are required to contribute from 5.7% to 6% percent of gross wages to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

For the year ended December 31, 2014, the City's annual pension cost and payments made to MERS was \$777,291. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions based on the December 31, 2014 valuation included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases 2% to 4.5% per year compounded annually based on inflation, plus from 0% to 13% percent based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period as the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, the date of the latest actuarial valuation, was 24 years.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
12/31/12	\$388,957	150%	\$85,899
12/31/13	427,409	100%	-
12/31/14	777,291	100%	-

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/14	\$23,397,192	\$32,415,350	\$9,018,158	72%	\$2,975,300	303%

Defined Contribution Plan

The City's defined contribution pension plans provide pension benefits for employees in certain bargaining and non-bargaining units. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employer and plan member contributions are recognized in the period that the contributions are due. Plan investments are excluded from this report as the fiduciary responsibility for this plan rests with MERS.

Participation in the defined contribution plan is based on employment classification. The City contributes 15.63% of each participant's base salary to the plan. Employees are required to contribute a minimum of 5.7% of base pay to the plan. Participating employees are 100% vested in the member's accumulated balance after one year. The plan provisions and contribution amounts were established by the City Council and may be amended by the Council. The plan is administered by MERS. The City and member contributions were \$54,515 and \$5,315, respectively, for the current year.

9. POST-EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health insurance premiums for retirees and their spouse until death. The rate paid for a surviving spouse is capped at the 1992 rate of \$190 per month. Benefit provisions are established through negotiations between the City and bargaining units and employee groups. The City makes 100% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

The City's contribution is based on pay-as-you-go financing requirements. For the current year the annual required contribution (ARC) was \$1,336,666 while actual contributions were \$458,452.

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City OPEB obligation to the plan.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Annual required contribution	\$1,336,666
Interest on Net OPEB obligation	141,514
Adjustment to annual required contribution	<u>(223,111)</u>
Annual OPEB cost (expense)	1,255,069
Contribution made	<u>458,452</u>
Increase in net OPEB obligation	796,617
Net OPEB obligation, beginning of year	<u>3,537,843</u>
Net OPEB obligation, end of year	<u>\$4,334,460</u>

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/12	\$1,228,292	38%	\$2,773,120
12/31/13	1,271,874	40%	3,537,843
12/31/14	1,255,069	37%	4,334,460

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Market</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/11	\$ -	\$20,228,920	\$20,228,920	0%	\$2,545,231	795%

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The City is currently funding the plan on a pay-as-you-go basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method, level dollar, closed amortization method, and an amortization period of 25 years were utilized. The actuarial assumptions included a 0% return on plan net position as the plan is not funded, a discount rate of 4%, and healthcare inflation factor from 9% graded down to 5% over four years.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

10. LONG-TERM DEBT

The following is a summary of the City debt transactions for the year ended December 31, 2014:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2014</u>	<u>Due Within One Year</u>
Governmental Activities					
2013 Capital Improvement Bonds, due in annual installments of \$85,000 to \$145,000 through November 2028; plus interest at 3.35%	\$1,750,000	\$ -	\$ 85,000	\$1,665,000	\$ 95,000
1997C Michigan Municipal Bond Authority, Advanced Refunding of Series 1991C, Group B of 1991 bonds, due in varying installments of \$20,000 to \$75,000 through November 2020; plus interest at 7.2%	405,000	-	45,000	360,000	50,000
2007 Michigan Municipal Bond Authority Energy Conservation Installment Purchase due in monthly installments of \$32,721 to \$64,784 including interest at 4.7% through November 2, 2022	767,811	-	51,864	715,947	58,791
2007 Brownfield Redevelopment Grant Project due in annual installments of \$9,297 including interest at 2% through October 20, 2026	109,076	-	7,662	101,414	7,776
Trackless Vehicle installment purchase due in monthly installments of \$1,073 including interest at 4.65% through December 2014	12,561	-	12,561	-	-
Central Dispatch Phone System installment purchase due in annual installments of \$7,195 including interest at 0% through October 2016	21,586	-	7,195	14,391	7,195
Other post-employment benefits	2,845,394	679,985	-	3,525,379	-
Accrued employee benefits	357,339	201,569	189,502	369,406	186,630
Total Governmental Activities	<u>\$6,268,767</u>	<u>\$881,554</u>	<u>\$398,784</u>	<u>\$6,751,537</u>	<u>\$405,392</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2014</u>	<u>Due Within One Year</u>
Business-type Activities					
2005 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030; plus interest from 3.3% to 4.5%	\$5,895,000	\$ -	\$255,000	\$5,640,000	\$260,000
2006 Water Supply System revenue refunding bonds due in annual installments of \$30,000 to \$680,000 through November 2030; plus interest from 3.3% to 4.5%	8,450,000	-	345,000	8,105,000	365,000
2011 Muskegon County Note Payable due in monthly installments of \$11,634 through September 2016	383,916	-	139,606	244,310	139,606
Other post-employment benefits	692,449	116,632	-	809,081	-
Accrued employee benefits	57,902	35,044	41,911	51,035	38,939
Total Business-type Activities	\$15,479,267	\$151,676	\$781,517	\$14,849,426	\$803,545

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of December 31, 2014 are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 218,762	\$109,712	\$ 764,606	\$ 575,566
2016	231,361	100,861	759,704	547,306
2017	237,360	79,614	685,000	521,518
2018	256,186	81,352	705,000	494,546
2019	280,690	70,437	735,000	466,780
2020-2024	1,059,207	191,471	4,135,000	1,868,051
2025-2029	573,186	47,476	5,060,000	938,088
2030-2032	-	-	1,145,000	51,525
Total	\$2,856,752	\$680,923	\$13,989,310	\$5,463,380

The City pays the County of Muskegon for operating and debt service costs related to wastewater treatment activities based on the City's flow into the County wastewater treatment system. The County, City and participating municipalities have pledged their full faith and credit for repayment of select Muskegon County wastewater system bonds. The City has not recorded a liability for any portion of the County wastewater treatment system debt.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

11. 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 for which the government carries commercial insurance. The City also purchases health and other insurance for employees. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. CONTINGENCIES

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs maybe questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the City.

13. ECONOMIC DEPENDENCY

Fruitport Charter Township and the City of Norton Shores are major customers of the City's water supply and water funds. During the year ended December 31, 2014, the City's water supply fund recognized revenue from Fruitport Charter Township and the City of Norton Shores of \$529,725 and \$1,317,638, respectively. During the year ended December 31, 2014, the City's water fund recognized revenue from Fruitport Charter Township and the City of Norton Shores of \$132,431 and \$329,410, respectively.

Fruitport Charter Township and the City of Norton Shores are contractually responsible for a portion of debt service requirements for debt reported in the water supply fund. During fiscal year 2011 Fruitport Charter Township provided required notification to the City of their withdrawal from the water supply contract in fiscal year 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MUSKEGON HEIGHTS

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED DECEMBER 31, 2014

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property	\$ 2,031,850	\$ 2,056,850	\$ 1,932,427	\$ (124,423)
Income	700,000	900,000	894,380	(5,620)
Intergovernmental revenues				
Federal	76,000	342,500	280,046	(62,454)
State	1,417,139	1,417,139	1,409,729	(7,410)
Other	169,000	169,000	126,750	(42,250)
Private grants	-	5,152	36,588	31,436
Licenses and permits	123,500	121,500	123,795	2,295
Charges for services	848,150	861,280	814,690	(46,590)
Fines	40,000	40,000	77,645	37,645
Interest earnings	900	900	1,576	676
Miscellaneous	39,820	543,763	660,111	116,348
Total revenues	<u>5,446,359</u>	<u>6,458,084</u>	<u>6,357,737</u>	<u>(100,347)</u>
Expenditures				
Current				
General government	1,692,971	1,617,900	1,700,667	(82,767)
Public safety	2,781,285	3,202,343	3,307,966	(105,623)
Public works	922,400	929,600	909,097	20,503
Community development	10,310	12,804	9,835	2,969
Culture and recreation	99,129	88,447	77,053	11,394
Capital outlay	-	530,916	538,701	(7,785)
Debt service				
Principal	74,041	164,041	157,404	6,637
Interest	37,470	95,315	104,071	(8,756)
Total expenditures	<u>5,617,606</u>	<u>6,641,366</u>	<u>6,804,794</u>	<u>(163,428)</u>
Revenues over (under) expenditures	<u>(171,247)</u>	<u>(183,282)</u>	<u>(447,057)</u>	<u>63,081</u>
Other financing sources (uses)				
Transfers in	370,000	360,000	270,000	(90,000)
Transfers out	(198,583)	(173,168)	(56,864)	116,304
Total other financing sources (uses)	<u>171,417</u>	<u>186,832</u>	<u>213,136</u>	<u>26,304</u>
Net changes in fund balance	170	3,550	(233,921)	(237,471)
Fund balance, beginning of year	<u>1,664,537</u>	<u>1,664,537</u>	<u>1,664,537</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,664,707</u>	<u>\$ 1,668,087</u>	<u>\$ 1,430,616</u>	<u>\$ (237,471)</u>

CITY OF MUSKEGON HEIGHTS

REQUIRED SUPPLEMENTARY INFORMATION

**MERS DEFINED BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2012	\$ 24,136,662	\$ 31,241,935	\$ 7,105,273	77.26%	\$ 1,926,338	369%
12/31/2013	23,446,375	31,483,841	8,037,466	74.47%	2,447,012	328%
12/31/2014	23,397,192	32,415,350	9,018,158	72.18%	2,975,300	303%

**RETIREE HEALTH OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ -	\$ 9,362,451	\$ 9,362,451	0%	\$ 2,586,996	362%
12/31/2011	-	13,577,666	13,577,666	0%	2,241,804	606%
12/31/2014	-	20,228,950	20,228,950	0%	2,545,231	795%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2012	\$ 1,228,292	\$ 472,787	38%
2013	1,271,873	507,151	40%
2014	1,255,069	458,452	37%

Note to required supplementary information

Budgets and Budgetary Accounting

The City adopts an annual budget for the general and each special revenue fund following the GAAP basis of accounting. Unexpended appropriations lapse at year-end.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF MUSKEGON HEIGHTS

**GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED DECEMBER 31, 2014

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 29,670	\$ 28,670	\$ 27,019	\$ 1,651
Mayor	6,450	6,450	5,772	678
City Manager	212,302	207,893	265,385	(57,492)
Personnel	10,000	7,800	8,013	(213)
Elections	15,700	14,020	15,092	(1,072)
Income Tax	69,736	66,605	67,596	(991)
Assessor	109,446	112,296	112,860	(564)
City Attorney	80,000	80,000	72,893	7,107
City Clerk	90,338	98,283	99,797	(1,514)
Finance	230,295	229,385	232,758	(3,373)
Treasurer	51,466	48,703	48,346	357
Data Processing	35,000	25,000	12,235	12,765
Buildings and Grounds	196,000	167,000	152,561	14,439
Motor Pool	50,000	40,500	29,608	10,892
Cemetery	129,330	119,330	97,753	21,577
DTE Test and Tune Program	-	-	52,805	(52,805)
Other general government	377,238	365,965	400,174	(34,209)
	<u>1,692,971</u>	<u>1,617,900</u>	<u>1,700,667</u>	<u>(82,767)</u>
Public safety				
Police	1,759,259	1,919,246	2,051,168	(131,922)
Fire	846,336	1,083,115	1,058,120	24,995
Inspections	175,690	199,982	198,678	1,304
	<u>2,781,285</u>	<u>3,202,343</u>	<u>3,307,966</u>	<u>(105,623)</u>
Public works				
Public works	92,400	80,700	64,889	15,811
Street lighting	250,000	240,400	224,562	15,838
Refuse collection	580,000	608,500	619,646	(11,146)
	<u>922,400</u>	<u>929,600</u>	<u>909,097</u>	<u>20,503</u>
Community development				
Loan program	-	2,494	-	2,494
Farmer's market	2,700	2,700	2,079	621
Planning	7,610	7,610	7,756	(146)
	<u>10,310</u>	<u>12,804</u>	<u>9,835</u>	<u>2,969</u>
Culture and recreation				
Parks	82,382	73,700	65,438	8,262
Library	11,747	12,747	11,139	1,608
Mona Lake boat launch	5,000	2,000	476	1,524
	<u>99,129</u>	<u>88,447</u>	<u>77,053</u>	<u>11,394</u>
Capital outlay	-	530,916	538,701	(7,785)
Debt service				
Principal	74,041	164,041	157,404	6,637
Interest and fiscal charges	37,470	95,315	104,071	(8,756)
	<u>111,511</u>	<u>259,356</u>	<u>261,475</u>	<u>(2,119)</u>
Total expenditures	<u>\$ 5,617,606</u>	<u>\$ 6,641,366</u>	<u>\$ 6,804,794</u>	<u>\$ (163,428)</u>

CITY OF MUSKEGON HEIGHTS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

DECEMBER 31, 2014

	Special Revenue			
	Major Streets	Local Streets	Community Development Block Grant	MSHDA
Assets				
Cash and pooled investments	\$ 210,317	\$ 4,352	\$ 51,674	\$ 16,955
Receivables				
Accounts	1,201	-	-	21,660
Special assessments	54,009	-	-	-
Due from other funds	68,770	30,535	5,971	15,526
Due from other governments	<u>235,077</u>	<u>60,366</u>	<u>374,180</u>	<u>-</u>
Total assets	<u>\$ 569,374</u>	<u>\$ 95,253</u>	<u>\$ 431,825</u>	<u>\$ 54,141</u>
 Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 46,887	\$ 4,045	\$ 20,342	\$ -
Accrued liabilities	1,627	1,230	1,072	-
Due to other funds	87,569	89,650	285,987	700
Due to other governments	-	-	119,276	53,441
Unearned revenue	<u>-</u>	<u>-</u>	<u>5,148</u>	<u>-</u>
Total liabilities	<u>136,083</u>	<u>94,925</u>	<u>431,825</u>	<u>54,141</u>
 Deferred inflows of resources				
Unavailable revenue - long-term receivables	<u>90,232</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balances				
Restricted				
Streets	343,059	328	-	-
Cemetery care	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>343,059</u>	<u>328</u>	<u>-</u>	<u>-</u>
 Total liabilities, deferred inflows of resources and fund balances	<u>\$ 569,374</u>	<u>\$ 95,253</u>	<u>\$ 431,825</u>	<u>\$ 54,141</u>

<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>MDNR Trust</u>	<u>MDNR Land and Water</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ 246,293	\$ 63,161	\$ -	\$ 901	\$ -	\$ 593,653
-	2,839	-	-	-	-	25,700
-	-	-	-	-	-	54,009
13,387	67,653	-	-	-	-	201,842
<u>18,856</u>	<u>-</u>	<u>96,508</u>	<u>19,380</u>	<u>48,245</u>	<u>-</u>	<u>852,612</u>
<u>\$ 32,243</u>	<u>\$ 316,785</u>	<u>\$ 159,669</u>	<u>\$ 19,380</u>	<u>\$ 49,146</u>	<u>\$ -</u>	<u>\$ 1,727,816</u>
\$ -	\$ -	\$ -	\$ -	\$ 29,477	\$ -	\$ 100,751
-	-	-	-	-	-	3,929
23,753	27,973	159,669	19,380	19,669	-	714,350
8,490	418	-	-	-	-	181,625
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,148</u>
<u>32,243</u>	<u>28,391</u>	<u>159,669</u>	<u>19,380</u>	<u>49,146</u>	<u>-</u>	<u>1,005,803</u>
<u>-</u>	<u>2,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,071</u>
-	-	-	-	-	-	343,387
<u>-</u>	<u>285,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,555</u>
<u>-</u>	<u>285,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>628,942</u>
<u>\$ 32,243</u>	<u>\$ 316,785</u>	<u>\$ 159,669</u>	<u>\$ 19,380</u>	<u>\$ 49,146</u>	<u>\$ -</u>	<u>\$ 1,727,816</u>

CITY OF MUSKEGON HEIGHTS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Special Revenue</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>
Revenues				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 462,771	\$ -
State	689,002	218,509	-	-
Charges for services	20,086	-	-	-
Interest earnings	4,840	-	-	993
Miscellaneous	1,201	-	-	41,125
Total revenues	<u>715,129</u>	<u>218,509</u>	<u>462,771</u>	<u>42,118</u>
Expenditures				
Current				
Public works and streets	548,841	258,084	-	-
Community development	-	-	462,771	52,335
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>548,841</u>	<u>258,084</u>	<u>462,771</u>	<u>52,335</u>
Revenues over (under) expenditures	<u>166,288</u>	<u>(39,575)</u>	<u>-</u>	<u>(10,217)</u>
Other financing sources (uses)				
Transfers in	-	65,000	-	10,212
Transfers out	<u>(65,000)</u>	<u>(25,121)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(65,000)</u>	<u>39,879</u>	<u>-</u>	<u>10,212</u>
Net changes in fund balances	101,288	304	-	(5)
Fund balances, beginning of year	<u>241,771</u>	<u>24</u>	<u>-</u>	<u>5</u>
Fund balances, end of year	<u>\$ 343,059</u>	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>MDNR Trust</u>	<u>MDNR Land and Water</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 462,771
-	-	-	-	-	-	907,511
-	4,871	-	-	-	-	24,957
-	5,761	-	-	-	-	11,594
-	-	-	-	-	-	42,326
-	<u>10,632</u>	-	-	-	-	<u>1,449,159</u>
-	-	-	-	-	-	806,925
-	-	-	-	-	-	515,106
-	-	-	-	-	45,000	45,000
-	-	-	-	-	<u>26,773</u>	<u>26,773</u>
-	-	-	-	-	<u>71,773</u>	<u>1,393,804</u>
-	<u>10,632</u>	-	-	-	<u>(71,773)</u>	<u>55,355</u>
-	-	-	-	-	71,773	146,985
-	-	-	-	-	-	<u>(90,121)</u>
-	-	-	-	-	<u>71,773</u>	<u>56,864</u>
-	10,632	-	-	-	-	112,219
-	<u>274,923</u>	-	-	-	-	<u>516,723</u>
<u>\$ -</u>	<u>\$ 285,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,942</u>

CITY OF MUSKEGON HEIGHTS

AGENCY FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2014

	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 525,012	\$ 57,168	\$ 582,180
Accounts receivable	9,961	-	9,961
Due from other governments	<u>4,353</u>	<u>247,059</u>	<u>251,412</u>
Total assets	<u>\$ 539,326</u>	<u>\$ 304,227</u>	<u>\$ 843,553</u>
Liabilities			
Accounts payable	\$ 263,279	\$ 36,203	\$ 299,482
Due to other governments	<u>276,047</u>	<u>268,024</u>	<u>544,071</u>
Total liabilities	<u>\$ 539,326</u>	<u>\$ 304,227</u>	<u>\$ 843,553</u>

CITY OF MUSKEGON HEIGHTS

DOWNTOWN DEVELOPMENT AUTHORITY COMBINING BALANCE SHEET/STATEMENT OF NET POSITION

DECEMBER 31, 2014

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets			
Cash and pooled investments	\$ 264,333	\$ -	\$ 264,333
Accounts receivable	2,983	-	2,983
Property taxes receivable	23,070	-	23,070
Due from other governments	388,194	-	388,194
Capital assets			
Land	-	294,635	294,635
Buildings	-	847,222	847,222
Accumulated depreciation	-	(363,429)	(363,429)
Total assets	<u>\$ 678,580</u>	<u>778,428</u>	<u>1,457,008</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Accounts payable	\$ 650	-	650
Accrued liabilities	183	-	183
Due to other governments	<u>287,494</u>	<u>-</u>	<u>287,494</u>
Total liabilities	<u>288,327</u>	<u>-</u>	<u>288,327</u>
Deferred inflows of resources			
Unavailable revenue - taxes	<u>95,703</u>	<u>-</u>	<u>95,703</u>
Fund balances			
Unassigned	<u>294,550</u>		
Total fund balances	<u>294,550</u>		
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 678,580</u>		
Net position			
Net investment in capital assets			778,428
Unrestricted			<u>294,550</u>
Total net position			<u>\$ 1,072,978</u>

CITY OF MUSKEGON HEIGHTS

**DOWNTOWN DEVELOPMENT AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES/STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Adjustments	Statement of Net Position
Revenues			
Property taxes	\$ 181,723	\$ -	\$ 181,723
Charges	37,306	-	37,306
Interest earnings	60	-	60
	<u>219,089</u>	<u>-</u>	<u>219,089</u>
 Expenditures			
Current			
General government	<u>185,565</u>	<u>26,327</u>	<u>211,892</u>
Net changes in fund balances	33,524	(33,524)	
Change in net position		7,197	7,197
Fund balances/net position, beginning of year	<u>261,026</u>	<u>804,755</u>	<u>1,065,781</u>
Fund balances/net position, end of year	<u>\$ 294,550</u>	<u>\$ 778,428</u>	<u>\$ 1,072,978</u>

SINGLE AUDIT SECTION



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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

June 30, 2015

To the City Council
City of Muskegon Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Muskegon Heights, Michigan (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

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

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City of Muskegon Heights, Michigan's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Ordebold Haefner LLC



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

June 30, 2015

To the City Council
City of Muskegon Heights, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Muskegon Heights, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Urodeuxeld Haefner LLC

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue January 1, 2014	Cash Received	Expenditures	Accrued (Deferred) Revenue December 31, 2014
U.S. Department of Housing and Urban Development							
Community Development Block Grant (CDBG)	14.218	B-10-MC-26-0027	\$ 642,551	\$ -	\$ 11,609	\$ 11,609	\$ -
Community Development Block Grant (CDBG)	14.218	B-11-MC-26-0027	499,532	32,203	27,218	34,160	39,145
Community Development Block Grant (CDBG)	14.218	B-12-MC-26-0027	525,928	140,618	64,905	31,518	107,231
Community Development Block Grant (CDBG)	14.218	B-13-MC-26-0027	407,063	106,177	264,622	263,412	104,967
Community Development Block Grant (CDBG)	14.218	B-14-MC-26-0027	391,690	-	-	122,072	122,074
Program Income				(5,148)	-	-	(5,148)
Total U.S. Department of Housing and Urban Development				<u>273,850</u>	<u>368,354</u>	<u>462,771</u>	<u>368,269</u>
National Park Service Land and Water Conservation Fund							
Passed through Michigan Department of Natural Resources MDNR Land and Water - Mona Lake Park	15.916	26-01709	60,000	19,380	-	-	19,380
U.S. Department of Justice							
Community Oriented Policing Services (COPS) Hiring Program	16.710	2011-UM-WX-0090	230,714	58,079	43,433	24,843	39,489
Community Oriented Policing Services (COPS) Hiring Program	16.710	2014-UM-WX-0098	125,000	-	-	16,687	16,687
Compliance Check Sweep	N/A	MMO-M-14-D40-O-000132	253	-	253	253	-
Passed through City of Muskegon							
Edward Byrne Memorial-Justice Assistance Grant (JAG)	16.738	2013-DJ-BX-0101	19,903	-	19,903	19,903	-
Edward Byrne Memorial-Justice Assistance Grant (JAG)	16.738	2014-DJ-BX-0474	16,346	-	16,346	16,346	-
Total U.S. Department of Justice				<u>58,079</u>	<u>79,935</u>	<u>78,032</u>	<u>56,176</u>
U.S. Department of Homeland Security							
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00904	995,000	-	-	202,014	202,014
Total Federal Awards				<u>\$ 351,309</u>	<u>\$ 448,289</u>	<u>\$ 742,817</u>	<u>\$ 645,839</u>

Notes to the Schedule of Expenditures of Federal Awards

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amounts reported in the financial statements.

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> X </u> yes	<u> </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001

Condition and Criteria: The City's system of controls does not enable it to prepare the financial statements, schedule of expenditures of federal awards and related note disclosures in accordance with generally accepted accounting principles (GAAP).

Cause: The City has not provided the resources necessary to prepare financial statements and the schedule of expenditure of federal awards in accordance with generally accepted accounting principles.

Effect: Professional auditing standards require that the inability to prepare financial statements in accordance with generally accepted accounting principles be reported as a material weakness.

Recommendation: The City's system of controls should be modified so that the City is able to prepare its financial statements and schedule of expenditures of federal awards in accordance with GAAP.

Management Response: The City maintains its financial records throughout the year on a modified accrual basis of accounting and has determined that any benefits derived from implementing a system to prepare GAAP basis financial statements and required disclosures would not be cost effective.

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-002

Condition and Criteria: Numerous significant audit adjustments were necessary during the course of the audit to compile year-end financial statements from the City's general ledger balances.

Cause: The City has not provided the necessary resources that would enable it to prepare a well adjusted trial balance.

Effect: The interim and preliminary year-end financial statements of the City do not reflect balances in accordance with generally accepted accounting principles (GAAP).

Recommendation: The City should develop and implement procedures to review and reconcile general ledger account balances for consistency with GAAP.

Management Response: Management will make additional human resources available to provide for timely review and adjustment of general ledger balances.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-003 - CFDA #14.218

Condition and Criteria: OMB Circular A-133 compliance requirements relating to Reporting require that the City's financial and performance reports be prepared accurately and completely based on balances that reconcile with supporting data. It was noted during testing of a performance report that certain amounts did not agree with the supporting documentation.

Cause: The report was not subject to a proper level of review prior to submission.

Effect: Noncompliance with the requirements of OMB Circular A-133 occurred and the performance report contained erroneous balances.

Recommendation: The City should modify the reporting process to ensure that the performance report is prepared accurately and completely from applicable supporting documentation and subjected to an appropriate level of review prior to submission.

Management Response: The City is in the process of modifying the reporting procedures to ensure that the performance report contains proper balances derived from the general ledger and is reviewed prior to submission.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

2013-001

The City's system of controls should be modified so that the City is able to prepare its financial statements and schedule of expenditures of federal awards in accordance with GAAP.

This finding is repeated as 2014-001.

2013-002

The City should develop and implement procedures to review and reconcile general ledger account balances for consistency with GAAP.

This finding is repeated as 2014-002.

2013-003

The City should modify the reporting requirements process to ensure that the performance report is prepared accurately and completely from applicable supporting documentation and subjected to an appropriate level of review prior to submission.

This finding is repeated as 2014-003.

2013-004

The City should review its purchasing process to ensure that payments are made only after compliance with OMB Circular A-133 and City policy is verified.

This finding was corrected.



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June 30, 2015

To the City Council
City of Muskegon Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights (the City) for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 20, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets, the allowance for uncollectible accounts receivable and the valuation of the pension and other post-employment benefit plans and obligations.

The useful lives of capital assets and the amount of uncollectible accounts are based on previous history and future expectations and the pension and other postemployment benefit plan obligations are based on actuarial valuations of the plans. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of contingencies in Note 12.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed a significant number of adjustments, many of which are material. The attached schedule itemizes the adjustments, all of which were recorded by management. In our judgment, the adjustments we proposed indicate matters that have a material effect on the City's financial reporting process.

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also noted the following items:

Recommendations repeated from last year:

Distributions to Other Units of Government

Payment in lieu of tax, delinquent property tax and other miscellaneous receipts in the tax collection fund and the balance of overcaptured property taxes reported in the Downtown Development Authority have accumulated. We recommend distributing collected amounts to the applicable units of government in a timely manner.

Outstanding Checks

Some banks accounts have long outstanding checks. We recommend reviewing the outstanding check listing and take necessary action to address these balances and to ensure the City's compliance with State of Michigan escheat laws.

Segregation of Duties

Income tax receipts are received, reconciled with reporting requirements and posted to the income tax system by the income tax clerk. The income tax clerk is also responsible for enforcement of the City Income Tax Ordinance. We recommend development and implementation of policies and procedures to ensure that the income tax activities are supervised, entries and adjustments to the income tax system are independently monitored and that a reconciliation process between balances reported in the income tax system and the balances reported on the general ledger are performed.

Nonsufficient Funds Checks

Multiple nonsufficient funds checks accumulated by the City have been reflected on the City's bank reconciliation but have not been reflected in customer account balances and internal and external cash distributions. We recommend developing and implementing policies and procedures to ensure nonsufficient funds checks are properly reflected in customer account balances and related internal and external cash distributions.

Grant Procedures

The City has incurred expenses eligible for reimbursement under various grant agreements which are not being requested for reimbursement from the granting agency in a timely manner. We recommend developing and implementing policies and procedures to ensure timely and accurate submission of grant reimbursement requests.

Current year additional recommendations:

SEC Continuing Disclosure

It was noted that the City is not in compliance with the SEC continuing disclosure rules in regards to the required annual filings for the water supply system revenue bonds. We recommend the City complete the necessary filings for all applicable open years.

Journal Entries

During our review of internal controls over the accounting and financial reporting process we noted that journal entries are not consistently approved by someone other than the preparer. We recommend that the City modify its procedures to ensure that each journal entry is reviewed by an individual separate from the journal entry preparation and general ledger entry process and that documentation of the review be evidenced in writing.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI), as itemized in the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Accounting and Financial Reporting for Pensions

Effective for the year ending December 31, 2015, the City will be required to implement a new pension reporting standard. This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability will be limited to the full accrual basis financial statements. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts may be deferred and amortized over varying periods.

This new standard will also require more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context.

Restriction on Use

This information is intended solely for the use of the Board and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Uredexeld Haefner LLC

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
101-294-956.000	MISCELLANEOUS EXPENSE	404.00	
101-000-390.000	FUND BALANCE		404.00
	Adjust Fund Balance to beginning amount		
592-537-750.000	CHEMICALS	13,012.93	
592-000-111.000	INVENTORY-MATERIALS & SUPPLIE		13,012.93
	To adjust checmical inventory - provided by City		
101-301-818.000	CONTRACTUAL SERVICES	587.59	
101-000-125.000	ESCROWED JUDGEMENTS-TRIDONN		587.59
592-537-920.000	UTILITIES	530.00	
592-000-123.000	PREPAID EXPENSES		530.00
	To expense old unknown prepaid amounts		
101-294-804.000	DUES & SUBSCRIPTIONS	230.00	
101-000-123.000	PREPAID EXPENSES		230.00
	Reclassify MiDeal dues - provided by City		
591-000-642.000	CHARGES - SALES	2,565.00	
591-000-255.000	CUSTOMER DEPOSITS		2,565.00
	To adjust customer deposits to agree with detail schedule		
591-000-111.000	INVENTORY-MATERIALS & SUPPLIE	2,690.00	
591-538-741.000	OPERATING SUPPLIES		2,690.00
	To adjust water inventory		
203-000-085.000	DUE FROM OTHER GOV'T UNITS		2,041.00
203-000-574.000	STATE REVENUE SHARING	2,041.00	
	Adjust accounts receivable from State		
202-000-085.000	DUE FROM OTHER GOV'T UNITS	54,335.21	
202-000-270.000	DEFERRED REVENUE		36,223.47
202-000-694.000	OTHER REVENUE		18,111.74
	To record remainig Public Act 252 payments		
592-000-665.000	INTEREST EARNED	528.00	
592-000-008.001	INVESTMENT-DEBT RESERVE		422.00
592-000-008.002	INVESTMENT-CONSTRUCTION FUND		106.00
711-000-004.000	INVESTMENT - FIRST OF AMERICA	2,894.00	
711-000-665.000	INTEREST EARNED		2,894.00
283-000-569.000	STATE GRANTS - OTHER		
	To adjust market value of investments		
101-000-085.000	DUE FROM OTHER GOV'T UNITS	16,687.04	
101-301-589.000	FEDERAL GRANTS		16,687.04
290-000-085.000	DUE FROM OTHER GOV'T UNITS	173.18	
290-000-589.000	FEDERAL GRANTS		173.18
	To record federal grants receivable - provided by City		
209-001-965.101	CONTRIBUTIONS TO OTHER FUNDS	1,500.00	
209-000-694.000	OTHER REVENUE		1.00
209-000-084.101	DUE FROM GENERAL FUND		1,499.00
	To adjust tor 3rd qtr transfer to 209 fund		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
750-000-259.106	DEFERRED COMPENSATION		1,600.00
750-000-259.108	MERS - POLICE AND FIRE		5,846.63
750-000-259.117	UNION DUES-TEAMSTERS		70.00
750-000-259.131	CITY INCOME TAX W/H	3,100.01	
750-000-259.715	MISCELLANEOUS OVERPAYMENTS		187.53
750-000-259.750	Miscellaneous Reimbursement	105.00	
750-000-259.107	MERS - ADMINISTRATIVE		1,013.87
750-000-259.114	INSURANCE		4,323.95
750-000-084.101	DUE FROM GENERAL FUND	9,836.97	
101-294-910.000	INSURANCE	9,836.97	
101-000-214.750	DUE TO OTHER FUNDS - 750		9,836.97
	To adjust payroll fund acocunts to year end amounts		
804-000-045.298	A/R PAVING - PARK STREET	367.00	
804-000-665.000	INTEREST EARNED		367.00
804-000-045.205	A/R - 5TH STREET PAVING (2005	16.00	
804-000-665.000	INTEREST EARNED		16.00
804-000-045.281	A/R - SANFORD ST PAVING S/A	1,526.00	
804-000-665.000	INTEREST EARNED		1,526.00
804-000-045.299	A/R PAVING - GETTY STREET	2,931.00	
804-000-665.000	INTEREST EARNED		2,931.00
804-000-339.280	DEFERRED REVENUE - 280	1,097.00	
804-000-339.281	DEFERRED REVENUE - 281	4,135.00	
804-000-339.291	DEFERRED REVENUE - 291	9,188.00	
804-000-339.282	DEFERRED REVENUE - 282	5,666.00	
804-000-642.000	CHARGES - SALES		20,086.00
	Records changes in special assessment receivable		
101-294-694.000	OTHER REVENUE	7,309.00	
101-249-910.000	INSURANCE		944.00
101-249-955.000	PROPERTY TAX EXPENSE		1,051.02
101-000-214.271	DUE TO CHILD VIOLENCE GRANT		5,313.98
271-000-084.101	DUE FROM GENERAL FUND	5,313.98	
271-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		4,340.17
271-249-665.000	INTEREST EARNED		991.73
271-249-202.249	ESCROW - 3305 PECK	17.92	
	To adjust receivable for Tommaine Irons promissory note		
101-000-085.703	DUE FROM OTHER GOV'T UNITS taxfund	17,787.84	
101-703-403.000	TAX LEVY - REAL PROPERTY		15,099.50
101-703-403.006	TAX LEVY - CITY DEBT PROCEEDS		1,792.23
101-703-403.004	TAX LEVY - ADMIN FEES		896.11
	Record receivable for 2014 payment in lieu of tax (PILOT)		
101-000-084.703	DUE FROM TAX COLLECTION FUND	15,743.68	
101-000-085.703	DUE FROM OTHER GOV'T UNITS taxfund		15,743.68
	Reclassify cash receipt for 2013 PILOT		
101-000-084.703	DUE FROM TAX COLLECTION FUND	20,948.60	
101-000-085.703	DUE FROM OTHER GOV'T UNITS taxfund		20,948.60
	Reclassify cash receipt for 2011 PILOT		
101-000-222.000	DUE TO COUNTY	912.00	
101-294-694.000	OTHER REVENUE		912.00
	Reclassify liability for City's portion of dog tag fees from 2010/2011		
101-000-221.000	DUE TO MHS	2,707.78	
101-301-626.000	CHARGES - SERVICES		2,707.78
	Reclassify liability for old accounts receivable balances from 2004		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
299-261-985.000	INFILL-NEW CONSTRUCTION	7,500.00	
299-000-002.000	CASH - SAVINGS		7,500.00
271-000-002.000	CASH - SAVINGS	7,500.00	
271-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		7,500.00
	Record down payment assistance for 3305 Peck - due to MSHDA		
590-000-260.000	ACCRUED SICK TIME PAYABLE	2.00	
590-001-705.000	SICK PAY		2.00
591-000-260.000	ACCRUED SICK TIME PAYABLE	5,359.00	
591-538-705.000	SICK PAY		5,359.00
592-537-705.000	SICK PAY	1,464.00	
592-000-260.000	ACCRUED SICK TIME PAYABLE		1,464.00
590-001-706.000	VACATION PAY	165.00	
590-000-261.000	ACCRUED VACATION TIME PAYABLE		165.00
591-000-261.000	ACCRUED VACATION TIME PAYABLE	4,653.00	
591-538-706.000	VACATION PAY		4,653.00
592-537-706.000	VACATION PAY	1,515.00	
592-000-261.000	ACCRUED VACATION TIME PAYABLE		1,515.00
	Adjust sick/vacation accrual		
592-000-154.000	ACCUM AMORTIZATION-BOND ISSUE		9,724.00
592-537-997.200	AMORTIZATION-BOND ISSUE COSTS	9,724.00	
	To record amortization of bond premium for business-type activities.		
592-000-251.000	ACCRUED INTEREST	4,468.00	
592-537-996.000	INTEREST EXPENSE		4,468.00
	To adjust accrued interest expenses		
592-000-306.000	BONDS PAYABLE-WATER TREATMENT	25,000.00	
592-000-306.001	BONDS PAY-WTR TREATMENT-CURR		25,000.00
	Separate out current portion of debt		
590-000-202.590	NOTE PAYABLE-COUNTY WASTEWATE		94.00
590-001-956.000	MISCELLANEOUS EXPENSE	94.00	
	To adjust note payable balance to actual		
101-000-084.202	DUE FROM MAJOR STREET FUND	60,000.00	
101-000-084.203	DUE FROM LOCAL STREET FUND	25,000.00	
101-000-668.001	EQUIPMENT RENTAL - ROUTINE		55,000.00
101-000-668.003	EQUIPMENT RENTAL - WINTER		30,000.00
202-463-941.000	RENTAL PAYMENTS	40,000.00	
202-478-941.000	RENTAL PAYMENTS	20,000.00	
202-000-214.101	DUE TO GENERAL FUND - 101		60,000.00
203-463-941.000	RENTAL PAYMENTS	15,000.00	
203-478-941.000	RENTAL PAYMENTS	10,000.00	
203-000-214.101	DUE TO GENERAL FUND - 101		25,000.00
	To record 2014 equipment rental charges		
280-000-041.000	A/R - SEMI ANNUAL DISTRIBUTIO	23,070.00	
280-000-403.000	TAX LEVY - REAL PROPERTY		23,070.00
280-000-041.000	A/R - SEMI ANNUAL DISTRIBUTIO		20,963.00
280-000-403.000	TAX LEVY - REAL PROPERTY	20,963.00	
	To set up current year and reverse prior year tax levy receivable		
280-000-403.000	TAX LEVY - REAL PROPERTY	23,298.00	
280-000-202.280	ACCOUNTS PAYABLE-OVERCAPTURE		23,298.00
	To adjust for unallowable capture to be returned		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
280-000-403.000	TAX LEVY - REAL PROPERTY	9,683.06	
280-000-339.000	DEFERRED REVENUE		9,683.06
	To record grant accrual after above adjustments		
101-703-403.000	TAX LEVY - REAL PROPERTY	584,159.68	
101-000-042.000	CURRENT RECEIVABLE		584,159.68
101-000-042.000	CURRENT RECEIVABLE	605,042.00	
101-703-403.000	TAX LEVY - REAL PROPERTY		587,976.00
101-703-403.004	TAX LEVY - ADMIN FEES		17,066.00
	To set up current year and reverse prior year tax levy receivable		
101-000-270.000	DEFERRED REVENUE	480,000.00	
101-703-403.000	TAX LEVY - REAL PROPERTY		480,000.00
	To reverse remaining deferred tax revenue		
101-703-403.000	TAX LEVY - REAL PROPERTY	990,513.00	
101-000-270.000	DEFERRED REVENUE		990,513.00
	To record current year deferred tax revenue		
101-000-339.001	DEFERRED REVENUE-FUTURE SETTLEMENT	223,939.30	
101-703-403.000	TAX LEVY - REAL PROPERTY		223,939.30
101-703-403.000	TAX LEVY - REAL PROPERTY	145,134.36	
101-000-339.001	DEFERRED REVENUE-FUTURE SETTLEMENT		145,134.36
	To recognize affect of charge backs on county settlement		
711-000-665.000	INTEREST EARNED	3.81	
711-000-214.209	DUE TO OTHER FUNDS - 209		3.81
209-000-084.711	DUE FROM CEMETERY PERPETUAL	3.81	
209-000-665.000	INTEREST EARNED		3.81
	Correct cash receipt #80555 - interest recorded to wrong fund - provided by City		
209-000-602.000	CHARGES - COST	3.24	
209-000-214.711	DUE TO CEMETERY PERPETUAL CAR		3.24
711-000-084.209	DUE FROM CEMETERY FUND	3.24	
711-000-642.000	CHARGES - SALES		3.24
	Correct cash receipt #93335 - cemetery care recorded to wrong fund - provided by City		
209-000-642.000	CHARGES - SALES	198.00	
209-000-602.000	CHARGES - COST		198.00
	Correct cash receipt #96265 - recorded to wrong account - provided by City		
209-000-642.000	CHARGES - SALES	198.00	
209-000-602.000	CHARGES - COST		198.00
	Correct cash receipt #100289 - recorded to wrong account - provided by City		
209-000-642.000	CHARGES - SALES	198.00	
209-000-602.000	CHARGES - COST		198.00
	Correct cash receipt #102659 - recorded to wrong account - provided by City		
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	680.00	
209-000-642.000	CHARGES - SALES		680.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	120.00	
711-000-642.000	CHARGES - SALES		120.00
	Record additional accounts receivable - provided by City		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	425.00	
209-000-642.000	CHARGES - SALES		425.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	75.00	
711-000-642.000	CHARGES - SALES		75.00
	Record additional accounts receivable - provided by City		
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	1,360.00	
209-000-642.000	CHARGES - SALES		1,360.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	240.00	
711-000-642.000	CHARGES - SALES		240.00
	Record additional accounts receivable - provided by City		
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	1,360.00	
209-000-642.000	CHARGES - SALES		1,360.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	240.00	
711-000-642.000	CHARGES - SALES		240.00
	Record additional accounts receivable - provided by City		
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	2,210.00	
209-000-642.000	CHARGES - SALES		2,210.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	390.00	
711-000-642.000	CHARGES - SALES		390.00
	Record additional accounts receivable - provided by City		
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	1,360.00	
209-000-642.000	CHARGES - SALES		1,360.00
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL	240.00	
711-000-642.000	CHARGES - SALES		240.00
	Record additional accounts receivable - provided by City		
209-000-642.000	CHARGES - SALES	1,552.61	
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		1,552.61
711-000-642.000	CHARGES - SALES	276.87	
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		276.87
	Record payments received on accounts receivable - provided by City		
209-000-642.000	CHARGES - SALES	2,223.75	
209-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		2,223.75
711-000-642.000	CHARGES - SALES	88.72	
711-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		88.72
	Writeoff uncollectible accounts - space returned to the cemetery for sale - provided by City		
209-000-642.000	CHARGES - SALES	3,078.39	
209-000-270.000	DEFERRED REVENUE		3,078.39
711-000-642.000	CHARGES - SALES	939.55	
711-000-270.000	DEFERRED REVENUE		939.55
	To adjust deferred revenue to actual		
705-000-699.000	INCOME TAX PROCEEDS	10,000.00	
705-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		10,000.00
	To record additional allowance for yearly average		
590-000-151.000	ALLOWANCE FOR DEPRECIATION		74,089.00
590-001-998.000	DEPRECIATION	74,089.00	
	To record capital asset additions & depreciation expense for sewer fund		
591-538-970.000	CAPITAL OUTLAY		-
591-000-159.000	PROPERTY, PLANT & EQUIPMENT	-	
591-000-159.100	ALLOWANCE FOR DEPRECIATION		33,181.00
591-538-998.000	DEPRECIATION	33,181.00	
	To record capital asset additions & depreciation expense for water fund		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
592-000-159.006	CONSTRUCTION IN PROGRESS		-
592-537-970.000	CAPITAL OUTLAY		250,441.00
592-537-930.000	REPAIR & MAINTENANCE CONTRACT		-
592-000-159.002	BUILDINGS	50,228.00	
592-000-159.005	MACHINERY	200,213.00	
592-000-159.100	ALLOWANCE FOR DEPRECIATION		888,473.00
592-538-998.000	DEPRECIATION	888,473.00	
	To record capital asset additions and depreciation expense for water supply		
299-000-085.000	DUE FROM OTHER GOVT UNITS		92,545.98
299-000-589.000	FEDERAL GRANTS	92,545.98	
290-000-085.000	DUE FROM OTHER GOVT UNITS	130,716.79	
290-000-589.000	FEDERAL GRANTS		130,716.79
	To record current year CDBG accrual		
271-400-569.000	STATE GRANTS - OTHER	10,617.00	
271-000-085.000	DUE FROM OTHER GOVT UNITS		10,617.00
	To writeoff receivable for closed grant recaptured		
271-000-270.000	DEFERRED REVENUE	41,000.00	
271-000-673.000	SALE OF FIXED ASSETS		41,000.00
271-203-982.000	REHABILITATION COST	41,000.00	
271-000-225.000	DUE TO OTHER GOVERNMENTS		41,000.00
	To recognize revenue from sale of 2724 Peck Street and record payable to MSHDA		
101-294-965.271	CONTRIBUTION TO OTHER FUNDS	10,212.00	
101-000-214.270	DUE TO OTHER FUNDS - 270		10,212.00
271-000-084.101	DUE FROM GENERAL FUND	10,212.00	
271-000-676.101	CONTRIBUTIONS FROM OTHER FUND		10,212.00
	To write off grant funds recaptured		
202-001-965.203	CONTRIBUTIONS TO OTHER FUNDS	10,000.00	
202-000-214.203	DUE TO LOCAL STREETS		10,000.00
203-000-084.202	DUE FROM MAJOR STREET FUND	10,000.00	
203-000-676.202	CONTRIBUTIONS FROM OTHER FUND		10,000.00
	To record additional contribution to local street per budget		
203-000-214.101	DUE TO GENERAL FUND - 101	3,000.00	
203-463-941.000	RENTAL PAYMENTS		3,000.00
101-000-668.001	EQUIPMENT RENTAL - ROUTINE	3,000.00	
101-000-084.203	DUE FROM LOCAL STREET FUND		3,000.00
	To reduce equipment rental charges for local street - provided by City		
299-000-214.101	DUE TO GENERAL FUND - 101	9,676.00	
299-200-982.000	REHABILITATION COST		9,676.00
101-200-801.000	PROFESSIONAL SERVICES	9,676.00	
101-000-084.299	DUE FROM OTHER FUNDS - 299		9,676.00
	To reclass DTE test/tune expenses to correct fund		
101-521-339.521	DEFERRED REVENUE-SANITATION		20,506.21
101-521-626.000	CHARGES - SERVICES	20,506.21	
	Record deferred revenue at year end (includes January-March billing)		
101-521-040.000	ACCOUNTS RECEIVABLE - GENERAL		655.00
101-521-626.000	CHARGES - SERVICES	655.00	
	Record write off of delinquent balances		

**City of Muskegon Heights
12/31/2014
Audit adjustments**

Account	Account name	Debit	Credit
590-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		205,877.00
590-000-642.000	CHARGES - SALES	205,877.00	
591-000-040.000	ACCOUNTS RECEIVABLE - GENERAL		168,413.00
591-000-642.000	CHARGES - SALES	168,413.00	
	Reverse prior year receivables		
590-000-642.000	CHARGES - SALES	35,752.00	
590-000-040.100	A/R FOR UNBILLED REVENUE		35,752.00
591-000-642.000	CHARGES - SALES	12,917.00	
591-000-040.100	A/R FOR UNBILLED REVENUE		12,917.00
	Record change in receivable balance		
101-200-674.000	CONTRIBUT. FROM PUBLIC SOURCES		43,129.00
101-200-801.000	PROFESSIONAL SERVICES	43,129.00	
	to correct expenses incorrectly booked to revenue acct		
101-901-991.021	PRINCIPAL-#9021 COMPUTER SYS		5,000.00
101-901-996.021	INTEREST-#9021 COMPUTER SYS	5,000.00	
	to correct misposting between principal and interest		
101-000-084.209	DUE FROM CEMETERY FUND	4,014.00	
101-000-084.590	DUE FROM SEWER FUND	8,833.00	
101-000-084.591	DUE FROM WATER FUND	15,539.00	
101-000-084.592	DUE FROM OTHER FUNDS - 592	47,487.00	
101-294-910.000	INSURANCE		75,873.00
209-001-910.000	INSURANCE	4,014.00	
209-000-214.101	DUE TO GENERAL FUND - 101		4,014.00
590-001-910.000	INSURANCE	8,833.00	
590-000-214.101	DUE TO GENERAL FUND - 101		8,833.00
591-538-910.000	INSURANCE	15,539.00	
591-000-214.101	DUE TO GENERAL FUND - 101		15,539.00
592-537-910.000	INSURANCE	47,487.00	
592-000-214.101	DUE TO GENERAL FUND - 101		47,487.00
	Allocate liability/property pool insurance premiums - provided by City		
591-537-716.000	HOSPITALIZATION		6,512.00
591-000-214.592	DUE TO OTHER FUNDS - 592	6,512.00	
592-537-716.000	HOSPITALIZATION	6,512.00	
592-000-084.591	DUE FROM WATER FUND		6,512.00
	move hospitalization expense booked in wrong fund		
101-000-085.000	DUE FROM OTHER GOV'T UNITS	36,102.87	
101-000-270.000	DEFERRED REVENUE		36,102.87
	record metro act funds for 2014 received in june 2015		
703-000-214.101	DUE TO GENERAL FUND - 101		7,123.00
703-000-259.715	MISCELLANEOUS OVERPAYMENTS	7,123.00	
	correct 2013 entries posted incorrectly - provided by City		
590-000-262.000	OPEB LIABILITY		23,523.00
591-000-262.000	OPEB LIABILITY		31,701.00
592-000-262.000	OPEB LIABILITY		61,408.00
590-001-716.100	HOSPITALIZATION - RETIREES	23,523.00	
591-538-716.100	HOSPITALIZATION - RETIREES	31,701.00	
592-537-716.100	HOSPITALIZATION - RETIREES	61,408.00	
	Record additional OPEB liability		