

**CITY OF MUSKEGON HEIGHTS,
MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015



Vredeveld Haefner LLC

CITY OF MUSKEGON HEIGHTS

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INDEPENDENT AUDITORS' REPORT

June 30, 2016

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, 2015, 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, 2015, 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.

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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 41 through 45 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 combining and individual fund financial statements and schedules 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 schedule 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, 2016 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.

Uredawald 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, 2015. 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 2015 fiscal year as follows:

- Continued SAFER grant funding from FEMA provided \$405,000 to support fire staff wages.
- Continued funding from the Department of Housing and Urban Development for the CDBG program provided \$272,000 of housing improvements and community support funding.
- State grant funding for the SAW program provided support used to document the conditional assessment and future improvements requirement of the wastewater enterprise.

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 2013. 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 and major street funds which are considered major funds. 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 \$2,628,127 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	2015	2014	2015	2014	2015
Assets						
Current and other assets	\$ 4,518,300	\$ 3,909,098	\$ 9,537,344	\$ 8,137,431	\$14,055,644	\$12,046,529
Capital assets	7,342,023	6,793,253	16,425,415	15,542,168	23,767,438	22,335,421
Total assets	11,860,323	10,702,351	25,962,759	23,679,599	37,823,082	34,381,950
Deferred outflows	-	1,002,024	-	172,253	-	1,174,277
Liabilities						
Current liabilities	1,161,692	598,775	500,143	289,810	1,661,835	888,585
Long-term liabilities	6,751,537	15,365,137	14,849,426	15,630,495	21,600,963	30,995,632
Total liabilities	7,913,229	15,963,912	15,349,569	15,920,305	23,262,798	31,884,217
Deferred inflows	1,135,647	1,043,883	-	-	1,135,647	1,043,883
Net Position						
Net Investment in capital assets	4,658,663	4,248,902	2,836,005	2,568,033	7,494,668	6,816,935
Restricted	628,942	962,379	1,338,373	1,338,035	1,967,315	2,300,414
Unrestricted	(2,476,158)	(10,514,701)	6,438,812	4,025,479	3,962,654	(6,489,222)
Total net position	\$2,811,447	\$ (5,303,420)	\$10,613,190	\$7,931,547	\$13,424,637	\$ 2,628,127

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 \$2,300,414 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. The City as a whole and 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, 2015, was \$12,646,056. The total cost of all programs and services was \$15,276,692 of which \$1,693,337 represents depreciation expense. This results in a net position decrease at the end of the fiscal year of \$2,630,632. 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	2015	2014	2015	2014	2015
Revenues						
Program revenues						
Charges for services	\$1,732,811	\$1,033,239	\$6,965,495	\$5,189,011	\$8,698,306	\$6,222,250
Operating grants and contributions	1,854,240	1,911,665	-	328,886	1,854,240	2,240,551
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes	1,932,427	1,805,067	-	-	1,932,427	1,805,067
Income taxes	894,380	963,708	-	-	894,380	963,708
State shared revenues	1,407,479	1,402,459	-	-	1,407,479	1,402,459
Investment earnings	1,576	-	12,418	12,025	13,994	12,025
Total revenues	7,822,913	7,116,134	6,977,913	5,529,922	14,800,826	12,646,056
Expenses						
General government	1,550,655	1,399,044	-	-	1,550,655	1,399,044
Public safety	3,945,400	4,462,372	-	-	3,945,400	4,462,372
Public works and streets	2,375,470	2,282,303	-	-	2,375,470	2,282,303
Culture and recreation	97,891	145,422	-	-	97,891	145,422
Community development	562,404	334,981	-	-	562,404	334,981
Interest on long-term debt	125,498	107,978	-	-	125,498	107,978
Sewer	-	-	1,181,200	1,599,608	1,181,200	1,599,608
Water	-	-	1,772,425	2,306,262	1,772,425	2,306,262
Water supply	-	-	2,876,372	2,638,722	2,876,372	2,638,722
Total expenses	8,657,318	8,732,100	5,829,997	6,544,592	14,487,315	15,276,692
Transfers in (out)	270,000	270,000	(270,000)	(270,000)	-	-
Increase (decrease) in net position	(564,405)	(1,345,962)	877,916	(1,284,670)	313,511	(2,630,632)
Net position – beginning	3,375,852	(3,957,458)	9,735,274	9,216,217	13,111,126	5,258,759
Net position – ending	\$2,811,447	\$(5,303,420)	\$10,613,190	\$7,931,547	\$13,424,637	\$2,628,127

Net position was restated at December 31, 2014 for the implementation of GASB Statements No. 68 and 71 (pension accounting). Governmental activities net position was reduced by \$6,768,905 and business-type activities was reduced by \$1,396,973.

Governmental Activities The preceding table shows that the governmental activities decreased the City's net position by \$1,345,962 during this fiscal year. This decrease is primarily the result of record changes in the City's net pension and OPEB liabilities from 2014.

Business-type Activities Business-type activities decreased the City's net position by \$1,284,670 during this fiscal year. This decrease is primarily the result of the losing the City of Norton Shore and Fruitport Township as water subsystem wholesale customers during the year.

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 \$2,176,038, an increase of \$116,480 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 \$1,060,979 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 \$217,769, during the current fiscal year. The change in fund balance was primarily the result of reduced City manager costs as the City manager position was vacant and lower than expected property tax and charges for service revenues.

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 changes in net position of \$91,152, \$(976,454), and \$(399,368), respectively.

General Fund Budgetary Highlights

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

- Reduced general government expenditures related to the open City manager position.
- Public Safety expenses for wages exceeded budget for both the police and fire departments.

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, 2015, amounted to \$22,335,421 (net of accumulated depreciation). Of this amount, \$6,793,253 was for its governmental type activities and \$15,542,168 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 fire truck refurbishing.

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$30,995,632. Of this amount, \$15,365,137 was for governmental activities while \$15,630,495 was for business-type activities.

The City's implemented new standards requiring the recording of the net pension liability during the year.

Additional information on the City's long-term debt can be found on Note 9 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 2016 fiscal year:

- Wage and benefit costs based on bargaining agreements.
- Continued SAFER, CDBG and SAW grant funding and related expenditures.
- Staffing based on Commission proved staffing levels.

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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Assets				
Cash and pooled investments	\$ 1,035,613	\$ 7,039,018	\$ 8,074,631	\$ 532,091
Receivables				
Accounts	103,563	892,479	996,042	-
Property taxes	508,423	-	508,423	41,910
Income taxes	234,957	-	234,957	-
Special assessment receivable	33,657	-	33,657	-
Due from other governments	1,841,017	19,105	1,860,122	-
Inventory	26,583	40,963	67,546	-
Prepaid items	125,285	-	125,285	-
Capital assets				
Land	259,408	40,012	299,420	294,635
Depreciable capital assets, net	6,533,845	15,502,156	22,036,001	457,465
Bond discounts	-	145,866	145,866	-
Total assets	10,702,351	23,679,599	34,381,950	1,326,101
Deferred outflow				
Pension related	1,002,024	172,253	1,174,277	-
Liabilities				
Accounts payable	452,544	169,151	621,695	2,944
Accrued liabilities	60,532	120,659	181,191	263
Due to other governments	41,000	-	41,000	185,911
Unearned revenue	44,699	-	44,699	-
Noncurrent liabilities				
Other post-employment benefits	4,181,908	965,523	5,147,431	-
Net pension liability	8,163,439	1,403,324	9,566,763	-
Due within one year	432,186	788,156	1,220,342	-
Due in more than one year	2,587,604	12,473,492	15,061,096	-
Total liabilities	15,963,912	15,920,305	31,884,217	189,118
Deferred inflows of resources				
Unavailable revenue - taxes	1,043,883	-	1,043,883	72,420
Net position				
Net investment in capital assets	4,248,902	2,568,033	6,816,935	752,100
Restricted for				
Debt service	-	1,338,035	1,338,035	-
Major streets	638,040	-	638,040	-
Local streets	3,735	-	3,735	-
Cemetery perpetual care	291,854	-	291,854	-
Unrestricted (deficit)	(10,485,951)	4,025,479	(6,460,472)	312,463
Total net position	\$ (5,303,420)	\$ 7,931,547	\$ 2,628,127	\$ 1,064,563

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

CITY OF MUSKEGON HEIGHTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

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	\$ 1,399,045	\$ 598,736	\$ 89,492	\$ -	\$ (710,817)
Public safety	4,462,372	206,704	440,419	-	(3,815,249)
Public works and streets	2,311,053	244,855	986,399	-	(1,079,799)
Culture and recreation	145,422	8,720	6,842	-	(129,860)
Community development	334,980	2,974	388,513	-	56,507
Interest on long-term debt	<u>107,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,978)</u>
Total governmental activities	<u>8,760,850</u>	<u>1,061,989</u>	<u>1,911,665</u>	<u>-</u>	<u>(5,787,196)</u>
Business-type activities					
Sewer	1,599,608	1,444,374	328,886	-	173,652
Water	2,306,262	1,412,485	-	-	(893,777)
Water supply	<u>2,638,722</u>	<u>2,332,152</u>	<u>-</u>	<u>-</u>	<u>(306,570)</u>
Total business-type activities	<u>6,544,592</u>	<u>5,189,011</u>	<u>328,886</u>	<u>-</u>	<u>(1,026,695)</u>
Total primary government	<u>\$ 15,305,442</u>	<u>\$ 6,251,000</u>	<u>\$ 2,240,551</u>	<u>\$ -</u>	<u>\$ (6,813,891)</u>
Component units					
Downtown Development Authority	<u>\$ 212,582</u>	<u>\$ 37,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (175,241)</u>
Total component units	<u>\$ 212,582</u>	<u>\$ 37,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (175,241)</u>

(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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net position				
Net (expense) revenue	\$ (5,787,196)	\$ (1,026,695)	\$ (6,813,891)	\$ (175,241)
General revenues				
Property taxes	1,805,067	-	1,805,067	166,737
Income taxes	963,708	-	963,708	-
State shared revenues - unrestricted	1,402,459	-	1,402,459	-
Interest earnings	-	12,025	12,025	89
Transfers - internal activities	<u>270,000</u>	<u>(270,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>4,441,234</u>	<u>(257,975)</u>	<u>4,183,259</u>	<u>166,826</u>
Change in net position	(1,345,962)	(1,284,670)	(2,630,632)	(8,415)
Net position, beginning of year	<u>(3,957,458)</u>	<u>9,216,217</u>	<u>5,258,759</u>	<u>1,072,978</u>
Net position, end of year	<u>\$ (5,303,420)</u>	<u>\$ 7,931,547</u>	<u>\$ 2,628,127</u>	<u>\$ 1,064,563</u>

(Concluded)

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

CITY OF MUSKEGON HEIGHTS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

DECEMBER 31, 2015

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 378,737	\$ 298,900	\$ 357,976	\$ 1,035,613
Receivables				
Accounts	81,682	1,283	20,598	103,563
Property taxes	508,423	-	-	508,423
Income taxes	234,957	-	-	234,957
Special assessment	-	33,657	-	33,657
Due from other funds	588,800	-	10,000	598,800
Due from other governments	786,058	476,353	578,606	1,841,017
Inventory	26,583	-	-	26,583
Prepaid items	125,285	-	-	125,285
Total assets	<u>\$ 2,730,525</u>	<u>\$ 810,193</u>	<u>\$ 967,180</u>	<u>\$ 4,507,898</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 361,016	\$ 41,169	\$ 50,359	\$ 452,544
Accrued liabilities	37,317	3,318	2,957	43,592
Due to other funds	-	28,750	570,050	598,800
Due to other governments	-	-	41,000	41,000
Deferred revenue	39,551	-	5,148	44,699
Total liabilities	<u>437,884</u>	<u>73,237</u>	<u>669,514</u>	<u>1,180,635</u>
Deferred inflows of resources				
Unavailable revenue - long-term receivables	7,161	98,916	1,265	107,342
Unavailable revenue - taxes	1,043,883	-	-	1,043,883
Total deferred inflows of resources	<u>1,051,044</u>	<u>98,916</u>	<u>1,265</u>	<u>1,151,225</u>
Fund balances				
Nonspendable				
Inventory	26,583	-	-	26,583
Prepays	125,285	-	-	125,285
Restricted				
Streets	-	638,040	3,735	641,775
Cemetery care	-	-	291,854	291,854
Restricted contributions	-	-	812	812
Unassigned	1,089,729	-	-	1,089,729
Total fund balances	<u>1,241,597</u>	<u>638,040</u>	<u>296,401</u>	<u>2,176,038</u>
Total liabilities deferred inflows and fund balances	<u>\$ 2,730,525</u>	<u>\$ 810,193</u>	<u>\$ 967,180</u>	<u>\$ 4,507,898</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, 2015

Fund balances - total governmental funds	\$ 2,176,038
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Amounts reported for *governmental activities* in the statement of net position are different because

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

Add - land	259,408
Add - capital assets (net of accumulated depreciation)	6,533,845

Certain assets are not due and receivable in the current period and therefore are reported as unavailable revenue in the funds.

Add - unavailable revenue	107,342
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences	(381,801)
Deduct - other postemployment benefits	(4,181,908)
Deduct - net pension liability	(8,163,439)
Add - deferred outflows related to pensions	1,002,024
Deduct - long-term debt	(2,637,989)
Deduct - accrued interest on bonds	<u>(16,940)</u>

Net position of governmental activities	<u>\$ (5,303,420)</u>
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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, 2015

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes				
Property	\$ 1,805,067	\$ -	\$ -	\$ 1,805,067
Income	963,708	-	-	963,708
Intergovernmental revenues				
Federal	431,728	-	272,263	703,991
State	1,480,101	725,577	228,654	2,434,332
Other	116,250	-	-	116,250
Private grants	91,162	-	-	91,162
Licenses and permits	121,785	-	-	121,785
Charges for services	800,842	20,352	6,656	827,850
Fines	64,030	-	-	64,030
Interest earnings	-	2,620	473	3,093
Miscellaneous	70,075	-	-	70,075
Total revenues	<u>5,944,748</u>	<u>748,549</u>	<u>508,046</u>	<u>7,201,343</u>
Expenditures				
Current				
General government	1,481,847	-	-	1,481,847
Public safety	3,639,205	-	-	3,639,205
Public works and streets	847,141	443,568	211,245	1,501,954
Community development	11,894	-	272,281	284,175
Culture and recreation	107,297	-	19,380	126,677
Debt service				
Principal	161,567	-	50,000	211,567
Interest	90,315	-	19,123	109,438
Total expenditures	<u>6,339,266</u>	<u>443,568</u>	<u>572,029</u>	<u>7,354,863</u>
Revenues over (under) expenditures	<u>(394,518)</u>	<u>304,981</u>	<u>(63,983)</u>	<u>(153,520)</u>
Other financing sources (uses)				
Transfers in	270,000	-	98,503	368,503
Transfers out	(64,501)	(10,000)	(24,002)	(98,503)
Total other financing sources (uses)	<u>205,499</u>	<u>(10,000)</u>	<u>74,501</u>	<u>270,000</u>
Net changes in fund balances	(189,019)	294,981	10,518	116,480
Fund balances, beginning of year	<u>1,430,616</u>	<u>343,059</u>	<u>285,883</u>	<u>2,059,558</u>
Fund balances, end of year	<u>\$ 1,241,597</u>	<u>\$ 638,040</u>	<u>\$ 296,401</u>	<u>\$ 2,176,038</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, 2015

Net changes in fund balances - total governmental funds	\$ 116,480
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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	152,364
Deduct - depreciation expense	(701,134)

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	218,763
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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	(12,395)
Deduct - change in houses held for sale	(29,619)
Deduct - change in other postemployment benefits	(656,529)
Deduct - change in net pension liability	(704,219)
Deduct - change in deferred outflows related to pensions	311,709
Deduct - change in deferred revenue	(42,842)
Add - change in accrued interest	<u>1,460</u>

Change in net position of governmental activities	<u>\$ (1,345,962)</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, 2015

	Enterprise Funds			
	Sewer	Water	Water Supply	Total
Assets				
Current assets				
Cash and pooled investments	\$ 298,568	\$ -	\$ 5,402,415	\$ 5,700,983
Accounts receivable	470,115	420,129	2,235	892,479
Due from other funds	-	-	710,668	710,668
Inventory	-	20,587	20,376	40,963
Due from other governments	19,105	-	-	19,105
Total current assets	787,788	440,716	6,135,694	7,364,198
Noncurrent assets				
Capital assets				
Land	2,246	-	37,766	40,012
Infrastructure and plant	3,693,989	2,047,233	28,050,136	33,791,358
Less accumulated depreciation	(2,684,380)	(1,842,686)	(13,762,136)	(18,289,202)
Net capital assets	1,011,855	204,547	14,325,766	15,542,168
Restricted cash and pooled investments	-	-	1,338,035	1,338,035
Bond discount	-	-	145,866	145,866
Total noncurrent assets	1,011,855	204,547	15,809,667	17,026,069
Total assets	1,799,643	645,263	21,945,361	24,390,267
Deferred inflow				
Pension related	37,660	44,400	90,193	172,253
Liabilities				
Current liabilities				
Accounts payable	88,720	40,438	39,993	169,151
Accrued liabilities	1,504	24,300	94,855	120,659
Due to other funds	-	710,668	-	710,668
Current portion of long-term debt	111,032	10,110	667,014	788,156
Total current liabilities	201,256	785,516	801,862	1,788,634
Long-term liabilities				
Other post-employment benefits	308,167	247,805	409,551	965,523
Net pension liability	306,813	361,718	734,793	1,403,324
Long-term debt, net of current portion	262	2,382	12,470,848	12,473,492
Total long-term liabilities	615,242	611,905	13,615,192	14,842,339
Total liabilities	816,498	1,397,421	14,417,054	16,630,973
Net position				
Net investment in capital assets	1,011,854	204,547	1,351,632	2,568,033
Restricted for debt service	-	-	1,338,035	1,338,035
Unrestricted (deficit)	8,951	(912,305)	4,928,833	4,025,479
Total net position	\$ 1,020,805	\$ (707,758)	\$ 7,618,500	\$ 7,931,547

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, 2015

	Enterprise Funds			
	Sewer	Water	Water Supply	Total
Operating revenue				
Charges for services	\$ 1,444,374	\$ 1,418,017	\$ 1,747,245	\$ 4,609,636
Charges for debt service and other	<u>-</u>	<u>303</u>	<u>584,907</u>	<u>585,210</u>
Total operating revenue	<u>1,444,374</u>	<u>1,418,320</u>	<u>2,332,152</u>	<u>5,194,846</u>
Operating expense				
Personnel services	123,809	144,224	280,417	548,450
Benefits	75,824	89,166	238,780	403,770
Contractual/professional services	1,255,761	1,900,627	284,186	3,440,574
Materials and supplies	9,786	37,953	89,759	137,498
Utilities	2,134	81,415	256,219	339,768
Repair and maintenance	6,605	1,722	3,820	12,147
Depreciation	74,091	29,377	888,735	992,203
Miscellaneous	<u>51,598</u>	<u>28,112</u>	<u>14,223</u>	<u>93,933</u>
Total operating expense	<u>1,599,608</u>	<u>2,312,596</u>	<u>2,056,139</u>	<u>5,968,343</u>
Operating income (loss)	<u>(155,234)</u>	<u>(894,276)</u>	<u>276,013</u>	<u>(773,497)</u>
Non-operating revenue (expense)				
State grants	328,886	-	-	328,886
Interest income	-	322	11,703	12,025
Interest expense	<u>-</u>	<u>-</u>	<u>(582,084)</u>	<u>(582,084)</u>
Total non-operating revenue (expense)	<u>328,886</u>	<u>322</u>	<u>(570,381)</u>	<u>(241,173)</u>
Income (loss) before transfers	173,652	(893,954)	(294,368)	(1,014,670)
Other financing sources and (uses)				
Transfers out	<u>(82,500)</u>	<u>(82,500)</u>	<u>(105,000)</u>	<u>(270,000)</u>
Changes in net position	91,152	(976,454)	(399,368)	(1,284,670)
Net position, beginning of year, as restated	<u>929,653</u>	<u>268,696</u>	<u>8,017,868</u>	<u>9,216,217</u>
Net position, end of year	<u>\$ 1,020,805</u>	<u>\$ (707,758)</u>	<u>\$ 7,618,500</u>	<u>\$ 7,931,547</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, 2015

	Enterprise Funds			
	Sewer	Water	Water Supply	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 1,399,438	\$ 1,350,652	\$ 2,518,852	\$ 5,268,942
Payments to employees	(198,787)	(259,906)	(522,741)	(981,434)
Payments to suppliers	<u>(1,391,661)</u>	<u>(2,038,487)</u>	<u>(816,862)</u>	<u>(4,247,010)</u>
Net cash provided by (used in) operating activities	<u>(191,010)</u>	<u>(947,741)</u>	<u>1,179,249</u>	<u>40,498</u>
Cash flows from non-capital financing activities				
Loans (to) from other funds	(2,986)	885,266	(963,419)	(81,139)
Grant funding	328,886	-	-	328,886
Principal paid on note payable	(139,606)	-	-	(139,606)
Transfers out	<u>(82,500)</u>	<u>(82,500)</u>	<u>(105,000)</u>	<u>(270,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>103,794</u>	<u>802,766</u>	<u>(1,068,419)</u>	<u>(161,859)</u>
Cash flows from capital and related financing activities				
Interest paid	-	-	(572,359)	(572,359)
Principal paid on long-term debt	-	-	(625,000)	(625,000)
Acquisitions of capital assets	<u>-</u>	<u>(19,380)</u>	<u>(89,576)</u>	<u>(108,956)</u>
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>(19,380)</u>	<u>(1,286,935)</u>	<u>(1,306,315)</u>
Cash flows from investing activities				
Interest income	<u>-</u>	<u>322</u>	<u>11,703</u>	<u>12,025</u>
Net increase (decrease) in cash and pooled investments	(87,216)	(164,033)	(1,164,402)	(1,415,651)
Cash and pooled investments, beginning of year	<u>385,784</u>	<u>164,033</u>	<u>7,904,852</u>	<u>8,454,669</u>
Cash and pooled investments, end of year	<u>\$ 298,568</u>	<u>\$ -</u>	<u>\$ 6,740,450</u>	<u>\$ 7,039,018</u>
Cash flows from operating activities				
Operating income (loss)	\$ (155,234)	\$ (894,276)	\$ 276,013	\$ (773,497)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	74,091	29,377	888,735	992,203
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(25,831)	(67,668)	186,700	93,201
Due from other governments	(19,105)	-	-	(19,105)
Inventory	-	-	(18,420)	(18,420)
Deferred inflow	(6,492)	(4,344)	(18,949)	(29,785)
Accounts payable	(65,697)	11,531	(150,235)	(204,401)
Due to other governments	(80)	(189)	-	(269)
Accrued liabilities	143	484	(6,290)	(5,663)
Accrued compensated absences	(712)	943	(14,322)	(14,091)
Accrued other post employment benefits	37,879	47,511	71,052	156,442
Net pension liability	<u>(29,972)</u>	<u>(71,110)</u>	<u>(35,035)</u>	<u>(136,117)</u>
Net cash provided by (used in) operating activities	<u>\$ (191,010)</u>	<u>\$ (947,741)</u>	<u>\$ 1,179,249</u>	<u>\$ 40,498</u>

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

CITY OF MUSKEGON HEIGHTS

FIDUCIARY FUNDS STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Private Purpose Trust Fund - John Hendrick Flower Fund	Agency Funds
Assets		
Cash and pooled investments	\$ 2,876	\$ 838,195
Due from other governments	-	28,291
Total assets	<u>\$ 2,876</u>	<u>\$ 866,486</u>
Liabilities		
Accounts payable	\$ -	\$ 286,015
Due to other governments	-	580,471
Total liabilities	-	<u>\$ 866,486</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, 2015

	Private Purpose Trust Fund - John Hendrick Flower Fund
Additions	
Interest earnings	\$ <u> -</u>
Total additions	-
 Deductions	
Fees	<u> -</u>
Total deductions	-
Changes in net position	-
Net position, beginning of year	<u> 2,876</u>
Net position, end of year	<u><u> 2,876</u></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, 2015

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 charges 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, 2015

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 funds:

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 *Major Streets Special Revenue Fund* accounts for the receipt and expenditures of state shared gas and weight taxes restricted to major street activities within the City.

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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.

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 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 and major special revenue funds. The general and 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.
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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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.

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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.

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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 items that qualify for reporting in this category related to the Net Pension Liability that are discussed in Note 8. The government has no other 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 next 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.

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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.

Pensions

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

2. 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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

During the year ended December 31, 2015, 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 Council	\$ 29,625	\$ 31,766	\$ 2,141
Mayor	5,600	5,720	120
Personnel	8,100	12,824	4,724
Elections	18,000	19,618	1,618
Income Tax	64,500	65,998	1,498
Assessor	108,600	111,584	2,984
City Attorney	95,000	102,583	7,583
City Clerk	105,500	106,709	1,209
Finance	189,000	192,552	3,552
Treasurer	51,644	53,052	1,408
Data Processing	17,000	19,171	2,171
Buildings and Grounds	145,000	172,630	27,630
Other General Government	310,345	321,412	11,067
Public safety			
Police	1,993,316	2,007,611	14,295
Auto theft grant	-	595	595
Community development			
Planning	9,000	10,321	1,321
Culture and recreation			
Parks	83,650	93,125	9,475
Library	1,600	12,811	11,211
Nonmajor funds			
MSHDA			
Community development	-	18	18
MDNR Land and Water			
Culture and recreation	-	19,380	19,380

3. CASH AND INVESTMENTS

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

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$8,074,631	\$532,091	\$841,071	\$9,447,793

Cash and pooled investments captions consist of the following at December 31, 2015:

Deposits and certificates of deposit	\$7,969,512
Mutual funds and securities	1,478,281
Total	<u>\$9,447,793</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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, \$7,817,289 of the City's bank balance of \$8,167,289 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:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Mutual fund accounts				
PNC Government Money Market	N/A	\$ 4,584	Unrated	
Federated Trust for US Treasury Obligations	N/A	1,335,150	AAAm	S&P
Fidelity Advisor Floating Rate Fund	N/A	9,306	4 star	Morningstar
Prudential Total Return Bond Fund	N/A	129,241	5 star	Morningstar
		<u>\$1,478,281</u>		

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 \$1,478,281 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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

4. DEFERRED INFLOWS OF RESOURCES

On the Governmental Funds Balance Sheet, the aggregate deferred inflows represent items that will be recognized as revenue in future periods. They are as follows:

	<u>General fund</u>	<u>Nonmajor governmental funds</u>
Unavailable property tax revenue	\$1,043,883	\$ -
Unavailable special assessment revenue		33,657
Unavailable receivable	7,161	66,524
Total	\$1,051,044	\$100,181

5. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at December 31, 2015 were as follows:

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

	<u>Water fund</u>	<u>Payable fund</u> <u>Major streets fund</u>	<u>Nonmajor governmental funds</u>	<u>Total</u>
<u>Receivable fund</u>				
General fund	\$ -	\$18,750	\$570,050	\$ 588,800
Water supply fund	710,668			710,668
Nonmajor governmental funds		10,000	-	10,000
Total	\$710,668	\$28,750	\$570,050	\$1,309,468

Transfers in and out for the year ended December 31, 2015 are as follows:

	<u>Transfer in</u>		
<u>Transfer out</u>	<u>General Fund</u>	<u>Non-major governmental funds</u>	<u>Total</u>
General Fund	\$ -	\$64,501	\$ 64,501
Major Streets Fund		10,000	10,000
Enterprise			
Sewer	82,500	-	82,500
Water	82,500	-	82,500
Water Supply	105,000	-	105,000
Non-major governmental funds	-	24,002	24,002
Total	\$270,000	\$98,503	\$368,503

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

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance December <u>31, 2015</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 259,408	\$ -	\$ -	\$ 259,408
Construction in progress	259,453	-	259,453	-
Total capital assets, not being depreciated	<u>518,861</u>	<u>-</u>	<u>259,453</u>	<u>259,408</u>
Capital assets, being depreciated				
Buildings and improvements	4,126,054	10,686	-	4,136,740
Equipment	1,417,841	11,395	-	1,429,236
Motor vehicles	2,453,434	136,713	-	2,590,147
Infrastructure	20,649,614	253,023	-	20,902,637
Total capital assets, being depreciated	<u>28,646,943</u>	<u>411,817</u>	<u>-</u>	<u>29,058,760</u>
Less accumulated depreciation for				
Buildings and improvements	1,495,601	159,417	-	1,655,018
Equipment	1,049,670	69,837	-	1,119,507
Motor vehicles	1,378,451	167,987	-	1,546,438
Infrastructure	17,900,059	303,893	-	18,203,952
Total accumulated depreciation	<u>21,823,781</u>	<u>701,134</u>	<u>-</u>	<u>22,524,915</u>
Net capital assets, being depreciated	<u>6,823,162</u>	<u>(289,317)</u>	<u>-</u>	<u>6,533,845</u>
Governmental Activities capital assets, net	<u>\$ 7,342,023</u>	<u>(289,317)</u>	<u>259,453</u>	<u>6,793,253</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>40,012</u>	<u>-</u>	<u>-</u>	<u>40,012</u>
Capital assets being depreciated				
Buildings and improvements	213,699	-	-	213,699
Equipment	1,978,642	83,680	-	2,062,322
Plant	22,285,177	25,276	-	22,310,453
Infrastructure	9,204,884	-	-	9,204,884
Total capital assets, being depreciated	<u>33,682,402</u>	<u>108,956</u>	<u>-</u>	<u>33,791,358</u>
Less accumulated depreciation for				
Buildings and improvements	87,008	8,512	-	95,520
Equipment	1,232,237	130,104	-	1,362,341
Plant	8,636,390	737,209	-	9,373,599
Infrastructure	7,341,364	116,378	-	7,457,742
Total accumulated depreciation	<u>17,296,999</u>	<u>992,203</u>	<u>-</u>	<u>18,289,202</u>
Net capital assets, being depreciated	<u>16,385,403</u>	<u>(883,247)</u>	<u>-</u>	<u>15,502,156</u>
Business-type Activities capital assets, net	<u>\$16,425,415</u>	<u>\$(883,247)</u>	<u>\$ -</u>	<u>\$15,542,168</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2015
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	345,753	21,907	-	367,660
Infrastructure	17,676	4,421	-	22,097
Total accumulated depreciation	363,429	26,328	-	389,757
Net capital assets, being depreciated	483,793	(26,328)	-	457,465
DDA capital assets, net	\$778,428	\$(26,328)	\$ -	\$752,100

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

Governmental Activities	
General government	\$ 17,471
Public safety	48,904
Public works and streets	620,786
Culture and recreation	13,973
Total depreciation expense - governmental activities	\$701,134
Business-type Activities	
Sewer	\$ 74,091
Water	29,377
Water supply	888,735
Total depreciation expense - business-type activities	\$992,203

7. PENSION PLANS

Plan Description

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

Benefits provided

Benefits provided include plans with multipliers ranging from 2.0 to 2.5. Vesting period of 10 years. Normal retirement age is 60 with early retirement at 50-55 with 25 years of service. Final average compensation is calculated based on 3-5 years.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2014):

Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled but not yet receiving benefits	17
Active plan members	<u>65</u>
Total	<u>180</u>

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was from 0 to 43.03% of annual covered payroll depending on position and classification. For divisions closed to new employees the employer has monthly employer contributions amount of \$4,078. Participating employees are required to contribute from 3% to 6% percent of gross wages to the Plan based on position and classification. 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.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3%-4%
- Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
- Investment rate of return: 8.25%, net of investment expense, including inflation
- Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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

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

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 1/1/14	\$31,079,555	\$22,080,894	\$8,998,661
Changes for the Year:			
Service Cost	387,556	-	387,556
Interest	2,482,950	-	2,482,950
Change in benefits	-	-	-
Differences between expected and actual experience	-	-	-
Change in assumptions	-	-	-
Contributions : Employer	-	832,783	(832,783)
Contributions: Employee	-	196,109	(196,109)
Net Investment Income	-	1,368,217	(1,368,217)
Benefit Payments, including refunds	(2,353,931)	(2,353,931)	-
Administrative expense	-	(49,936)	49,936
Other Changes	44,769	-	44,769
Net Changes	561,344	(6,758)	568,102
Balance at 12/31/14	\$31,640,899	\$22,074,136	\$9,566,763

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7%) or 1% higher (9%) than the current rate.

	Current		
	1% Decrease	Discount rate	1 % increase
Total Pension Liability	\$34,943,060	\$31,640,899	\$28,842,283
Fiduciary Net Position	22,074,136	22,074,136	22,074,136
Net Pension Liability	\$12,868,924	\$ 9,566,763	\$ 6,768,147

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

For the year ended December 31, 2015 the employer recognized pension expense of 664,887. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess(Deficit) Investment Returns	317,391	-
Contributions subsequent to the Measurement date*	856,886	-
Total	\$1,174,277	\$ -

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2016.

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

2016	\$ 79,348
2017	79,348
2018	79,348
2019	79,347
2020	-
Thereafter	-
Total	\$317,391

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 10% 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 Authority Board and may be amended by the Authority Board. The plan is administered by MERS. The City and member contributions were \$7,004 and \$709, respectively, for the current year.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

8. 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 \$1,411,515 while actual contributions were \$491,398.

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.

Annual required contribution	\$1,411,515
Interest on Net OPEB obligation	173,378
Adjustment to annual required contribution	<u>(280,524)</u>
Annual OPEB cost (expense)	1,304,369
Contribution made	<u>491,398</u>
Increase in net OPEB obligation	812,971
Net OPEB obligation, beginning of year	<u>4,334,460</u>
Net OPEB obligation, end of year	<u>\$5,147,431</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>
12/31/13	\$1,271,874	40%	\$3,537,843
12/31/14	1,255,069	37%	4,334,460
12/31/15	1,304,369	38%	5,147,431

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>
12/31/14	\$ -	\$13,825,676	\$13,825,676	0%	\$2,545,231	543%

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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 24 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.

9. LONG-TERM DEBT

The following is a summary of the City debt transactions for the year ended December 31, 2015:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015	Due Within One Year
Governmental Activities					
2013 Capital Improvement Bonds, due in annual installments of \$85,000 to \$145,000 through November 2028; plus interest at 3.35%	\$1,665,000	\$ -	\$ 95,000	\$1,570,000	\$100,000
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%	360,000	-	50,000	310,000	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	715,947	-	58,791	657,156	66,273
2007 Brownfield Redevelopment Grant Project due in monthly installments of \$9,297 including interest at 2% through October 20, 2026	101,414	-	7,776	93,638	7,893

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>	<u>Due Within One Year</u>
Central Dispatch Phone System installment purchase due in annual installments of \$7,195 including interest at 0% through October 2016	14,391	-	7,196	7,195	7,195
Other post-employment benefits	3,525,379	656,529	-	4,181,908	-
Accrued employee benefits	369,406	199,025	186,630	381,801	200,825
Total Governmental Activities	<u>\$6,751,537</u>	<u>\$855,554</u>	<u>\$405,393</u>	<u>\$7,201,698</u>	<u>\$432,186</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%	\$5,640,000	\$ -	\$260,000	\$5,380,000	\$275,000
2006 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%	8,105,000	-	365,000	7,740,000	380,000
2011 Muskegon County Note Payable due in monthly installments of \$11,634 through September 2016	244,310	-	139,606	104,704	104,704
Other post-employment benefits	809,081	156,442	-	965,523	-
Accrued employee benefits	51,035	24,846	38,938	36,943	28,451
Total Business-type Activities	<u>\$14,849,426</u>	<u>\$181,288</u>	<u>\$803,544</u>	<u>\$14,227,170</u>	<u>\$788,155</u>

Pledged Revenues

The City has pledged future water supply system total revenues, net of specified operating expenses, to repay \$16,465,000 of two water supply system refunding revenue bonds issued in 2005 and 2006. Proceeds from these refunding bonds provided financing to advance refund revenue bonds which financed improvements to the water supply system. These bonds are payable solely from water supply net revenues and are payable through 2030. Annual principal and interest payments on these bonds are expected to require approximately 50% of net revenues. The total principal and interest remaining to be paid on these bonds is \$18,007,814. For the current year, principal and interest paid was \$1,200,566 and net revenues were \$2,332,152.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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>
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	295,915	58,358	765,000	437,838
2021-2025	907,317	151,978	4,300,000	1,698,756
2026-2030	429,160	28,611	5,275,000	721,070
2031-2032	-	-	-	-
Total	\$2,637,989	\$571,211	\$13,224,704	\$4,887,814

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 City has not recorded a liability for any portion of the County wastewater treatment system debt.

10. 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.

11. 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.

12. ECONOMIC DEPENDENCY

Fruitport Charter Township and the City of Norton Shores were major customers of the City's water supply and water funds. During the year ended December 31, 2015, the City's water supply fund recognized revenue from Fruitport Charter Township and the City of Norton Shores of \$118,151 and \$267,485, respectively. During the year ended December 31, 2015, the City's water fund recognized revenue from Fruitport Charter Township and the City of Norton Shores of \$29,538 and \$66,871, respectively.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Fruitport Charter Township and the City of Norton Shores withdrew as wholesale customers of the water and water supply funds during fiscal year 2015. Both entities continue to be contractually obligated to make payments to the water supply fund for debt service on outstanding revenue bonds. During fiscal year 2014 Fruitport Charter Township and the City of Norton Shores made up approximately 47% and 28% of water supply and water fund operating revenues respectively. Fruitport Charter Township and the City of Norton Shores did not make required payments for debt service on outstanding revenue bonds in 2015. Communication from Fruitport Charter Township and the City of Norton Shores indicates that they do not intend to make future contractually required contributions for debt service on outstanding City revenue bonds. The City has not reported a receivable for the balance due under contractual requirements from Fruitport Charter Township and the City of Norton Shores because the collectability of this balance is currently uncertain.

13. OPERATING LEASES

The City is committed under various leases for equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2015 amounted to \$9,702. Future minimum lease payments for these leases are as follows:

2016	\$ 27,012
2017	27,012
2018	27,012
2019	27,012
2020	<u>18,873</u>
Total	<u>\$126,921</u>

14. PRIOR PERIOD ADJUSTMENT

Beginning net position of the City was decreased to record the net pension liability in accordance with the implementation of Governmental Accounting Standards Board Statement No. 68 as follows:

Opinion Unit	Amount
Governmental Activities	\$7,459,220
Business—Type Activities	1,539,441
Sewer Fund	336,785
Water Fund	432,828
Water Supply Fund	769,828

Beginning net position of the City was increased to record deferred outflows in accordance with the implementation of Governmental Accounting Standards Board Statement No. 71 as follows:

Opinion Unit	Amount
Governmental Activities	\$690,315
Business—Type Activities	142,468
Sewer Fund	31,168
Water Fund	40,056
Water Supply Fund	71,244

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, 2015

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property	\$ 2,066,268	\$ 1,986,500	\$ 1,805,067	\$ (181,433)
Income	740,000	740,000	963,708	223,708
Intergovernmental revenues				
Federal	497,950	497,950	431,728	(66,222)
State	1,465,700	1,465,700	1,480,101	14,401
Other	155,000	155,000	116,250	(38,750)
Private grants	-	103,350	91,162	(12,188)
Licenses and permits	122,000	122,000	121,785	(215)
Charges for services	919,100	801,648	800,842	(806)
Fines	72,000	72,000	64,030	(7,970)
Interest earnings	1,400	1,400	-	(1,400)
Miscellaneous	95,300	93,750	70,075	(23,675)
Total revenues	<u>6,134,718</u>	<u>6,039,298</u>	<u>5,944,748</u>	<u>(94,550)</u>
Expenditures				
Current				
General government	1,630,778	1,473,888	1,481,847	(7,959)
Public safety	3,486,458	3,683,316	3,639,205	44,111
Public works	958,400	939,000	847,141	91,859
Community development	10,800	10,800	11,894	(1,094)
Culture and recreation	96,279	87,750	107,297	(19,547)
Debt service				
Principal	174,449	162,410	161,567	843
Interest	90,590	90,590	90,315	275
Total expenditures	<u>6,447,754</u>	<u>6,447,754</u>	<u>6,339,266</u>	<u>108,488</u>
Revenues over (under) expenditures	<u>(313,036)</u>	<u>(408,456)</u>	<u>(394,518)</u>	<u>(203,038)</u>
Other financing sources (uses)				
Transfers in	370,000	370,000	270,000	(100,000)
Transfers out	(46,325)	(46,325)	(64,501)	(18,176)
Total other financing sources (uses)	<u>323,675</u>	<u>323,675</u>	<u>205,499</u>	<u>(118,176)</u>
Net changes in fund balance	10,639	(84,781)	(189,019)	(104,238)
Fund balance, beginning of year	<u>1,430,616</u>	<u>1,430,616</u>	<u>1,430,616</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,441,255</u>	<u>\$ 1,345,835</u>	<u>\$ 1,241,597</u>	<u>\$ (104,238)</u>

CITY OF MUSKEGON HEIGHTS

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

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	664,336	664,336	725,577	61,241
Charges for services	-	-	20,352	20,352
Interest earnings	-	-	2,620	2,620
Total revenues	<u>664,336</u>	<u>664,336</u>	<u>748,549</u>	<u>84,213</u>
Expenditures				
Current				
Public works	<u>584,854</u>	<u>584,854</u>	<u>443,568</u>	<u>141,286</u>
Revenues over (under) expenditures	<u>79,482</u>	<u>79,482</u>	<u>304,981</u>	<u>(57,073)</u>
Other financing sources (uses)				
Transfers out	<u>(65,000)</u>	<u>(65,000)</u>	<u>(10,000)</u>	<u>55,000</u>
Net changes in fund balance	14,482	14,482	294,981	280,499
Fund balance, beginning of year	<u>343,059</u>	<u>343,059</u>	<u>343,059</u>	<u>-</u>
Fund balance, end of year	<u>\$ 357,541</u>	<u>\$ 357,541</u>	<u>\$ 638,040</u>	<u>\$ 280,499</u>

CITY OF MUSKEGON HEIGHTS

DEFINED BENEFIT PENSION PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 387,556
Interest	2,482,950
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefit payments including employee refunds	(2,353,931)
Other	<u>44,769</u>
Net change in total pension liability	<u>561,344</u>
Total pension liability, beginning of year	<u>31,079,555</u>
Total pension liability, ending of year	<u><u>\$ 31,640,899</u></u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 832,783
Contributions-employee	196,109
Net Investment income	1,368,217
Benefit payments including employee refunds	(2,353,931)
Administrative expense	<u>(49,936)</u>
Net change in plan fiduciary net position	<u>(6,758)</u>
Plan fiduciary net position, beginning of year	<u>22,080,894</u>
Plan fiduciary net position, ending of year	<u><u>\$ 22,074,136</u></u>
Employer net pension liability	<u><u>\$ 9,566,763</u></u>
Plan fiduciary net position as a percentage of the total pension liability	70%
Covered employee payroll	2,975,300
Employer's net pension liability as a percentage of covered employee payroll	322%

Notes to schedule:

Above dates are based on a December 31, 2014 measurement date.

CITY OF MUSKEGON HEIGHTS

DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>
Actuarial determined contributions	\$ 832,783
Contributions in relation to the actuarially determined contribution	<u>832,783</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	2,975,300
Contributions as a percentage of covered employee payroll	28%
Notes to schedule	
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.50%
Salary increases	4.50%
Investment rate of return	8.25%
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male 1994 group annuity mortality table

CITY OF MUSKEGON HEIGHTS

REQUIRED SUPPLEMENTARY INFORMATION

**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	-	13,825,676	13,825,676	0%	2,545,231	543%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2013	\$ 1,271,873	\$ 507,151	40%
2014	1,255,069	458,452	37%
2015	1,304,369	491,398	38%

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.

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**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, 2015

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 27,850	\$ 29,625	\$ 31,766	\$ (2,141)
Mayor	5,390	5,600	5,720	(120)
City Manager	214,444	91,000	83,440	7,560
Personnel	8,800	8,100	12,824	(4,724)
Elections	6,700	18,000	19,618	(1,618)
Income Tax	69,969	64,500	65,998	(1,498)
Assessor	113,217	108,600	111,584	(2,984)
City Attorney	65,000	95,000	102,583	(7,583)
City Clerk	98,823	105,500	106,709	(1,209)
Finance	233,427	189,000	192,552	(3,552)
Treasurer	51,644	51,644	53,052	(1,408)
Data Processing	17,000	17,000	19,171	(2,171)
Buildings and Grounds	198,000	145,000	172,630	(27,630)
Motor Pool	45,000	45,000	33,907	11,093
Cemetery	127,974	127,974	106,163	21,811
DTE Test and Tune Program	-	62,000	42,718	19,282
Other general government	347,540	310,345	321,412	(11,067)
	1,630,778	1,473,888	1,481,847	(7,959)
Public safety				
Police	1,936,473	1,993,316	2,007,611	(14,295)
Auto theft grant	-	-	595	(595)
Fire	1,314,471	1,485,000	1,437,449	47,551
Inspections	235,514	205,000	193,550	11,450
	3,486,458	3,683,316	3,639,205	44,111
Public works				
Public works	103,400	72,000	55,297	16,703
Street lighting	250,000	227,000	190,017	36,983
Refuse collection	605,000	640,000	601,827	38,173
	958,400	939,000	847,141	91,859
Community development				
Farmer's market	3,500	1,800	1,573	227
Planning	7,300	9,000	10,321	(1,321)
	10,800	10,800	11,894	(1,094)
Culture and recreation				
Parks	82,382	83,650	93,125	(9,475)
Library	11,397	1,600	12,811	(11,211)
Mona Lake boat launch	2,500	2,500	1,361	1,139
	96,279	87,750	107,297	(19,547)
Debt service				
Principal	174,449	162,410	161,567	843
Interest and fiscal charges	90,590	90,590	90,315	275
	265,039	253,000	251,882	1,118
Total expenditures	\$ 6,447,754	\$ 6,447,754	\$ 6,339,266	\$ 108,488

CITY OF MUSKEGON HEIGHTS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

DECEMBER 31, 2015

	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>	<u>Cemetery Perpetual Care</u>
Assets				
Cash and pooled investments	\$ -	\$ -	\$ 23,523	\$ 291,860
Receivables				
Accounts	1,050	-	18,289	1,259
Due from other funds	10,000	-	-	-
Due from other governments	<u>135,008</u>	<u>347,090</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 146,058</u>	<u>\$ 347,090</u>	<u>\$ 41,812</u>	<u>\$ 293,119</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 6,641	\$ 1,125	\$ -	\$ -
Accrued liabilities	1,438	1,519	-	-
Due to other funds	134,244	339,298	-	-
Due to other governments	-	-	41,000	-
Unearned revenue	<u>-</u>	<u>5,148</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>142,323</u>	<u>347,090</u>	<u>41,000</u>	<u>-</u>
Deferred inflows of resources				
Unavailable revenue - long-term receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,265</u>
Fund balances				
Restricted				
Streets	3,735	-	-	-
Cemetery care	-	-	-	291,854
Restricted contributions	<u>-</u>	<u>-</u>	<u>812</u>	<u>-</u>
Total fund balances	<u>3,735</u>	<u>-</u>	<u>812</u>	<u>291,854</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 146,058</u>	<u>\$ 347,090</u>	<u>\$ 41,812</u>	<u>\$ 293,119</u>

<u>MDNR Trust</u>	<u>MDNR Land and Water</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ 42,593	\$ -	\$ 357,976
-	-	-	-	20,598
-	-	-	-	10,000
<u>96,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>578,606</u>
<u>\$ 96,508</u>	<u>\$ -</u>	<u>\$ 42,593</u>	<u>\$ -</u>	<u>\$ 967,180</u>
\$ -	\$ -	\$ 42,593	\$ -	\$ 50,359
-	-	-	-	2,957
96,508	-	-	-	570,050
-	-	-	-	41,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,148</u>
<u>96,508</u>	<u>-</u>	<u>42,593</u>	<u>-</u>	<u>669,514</u>
-	-	-	-	1,265
-	-	-	-	3,735
-	-	-	-	291,854
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>812</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>296,401</u>
<u>\$ 96,508</u>	<u>\$ -</u>	<u>\$ 42,593</u>	<u>\$ -</u>	<u>\$ 967,180</u>

CITY OF MUSKEGON HEIGHTS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>	<u>Cemetery Perpetual Care</u>
Revenues				
Intergovernmental revenues				
Federal	\$ -	\$ 272,263	\$ -	\$ -
State	228,654	-	-	-
Charges for services	-	-	-	6,656
Interest earnings	-	-	830	(357)
Total revenues	<u>228,654</u>	<u>272,263</u>	<u>830</u>	<u>6,299</u>
Expenditures				
Current				
Public works and streets	211,245	-	-	-
Community development	-	272,263	18	-
Culture and recreation	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>211,245</u>	<u>272,263</u>	<u>18</u>	<u>-</u>
Revenues over (under) expenditures	<u>17,409</u>	<u>-</u>	<u>812</u>	<u>6,299</u>
Other financing sources (uses)				
Transfers in	10,000	-	-	-
Transfers out	(24,002)	-	-	-
Total other financing sources (uses)	<u>(14,002)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	3,407	-	812	6,299
Fund balances, beginning of year	<u>328</u>	<u>-</u>	<u>-</u>	<u>285,555</u>
Fund balances, end of year	<u>\$ 3,735</u>	<u>\$ -</u>	<u>\$ 812</u>	<u>\$ 291,854</u>

<u>MDNR Trust</u>	<u>MDNR Land and Water</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 272,263
-	-	-	-	228,654
-	-	-	-	6,656
-	-	-	-	473
-	-	-	-	508,046
-	-	-	-	211,245
-	-	-	-	272,281
-	19,380	-	-	19,380
-	-	-	50,000	50,000
-	-	-	19,123	19,123
-	19,380	-	69,123	572,029
-	(19,380)	-	(69,123)	(63,983)
-	19,380	-	69,123	98,503
-	-	-	-	(24,002)
-	19,380	-	69,123	74,501
-	-	-	-	10,518
-	-	-	-	285,883
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,401</u>

CITY OF MUSKEGON HEIGHTS

**AGENCY FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES**

DECEMBER 31, 2015

	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 816,293	\$ 21,902	\$ 838,195
Due from other governments	<u>28,291</u>	<u>-</u>	<u>28,291</u>
Total assets	<u>\$ 844,584</u>	<u>\$ 21,902</u>	<u>\$ 866,486</u>
Liabilities			
Accounts payable	\$ 264,113	\$ 21,902	\$ 286,015
Due to other governments	<u>580,471</u>	<u>-</u>	<u>580,471</u>
Total liabilities	<u>\$ 844,584</u>	<u>\$ 21,902</u>	<u>\$ 866,486</u>

CITY OF MUSKEGON HEIGHTS

**DOWNTOWN DEVELOPMENT AUTHORITY
COMBINING BALANCE SHEET/STATEMENT OF NET POSITION**

DECEMBER 31, 2015

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and pooled investments	\$ 532,091	\$ -	\$ 532,091
Property taxes receivable	41,910	-	41,910
Capital assets			
Land	-	294,635	294,635
Buildings	-	847,222	847,222
Accumulated depreciation	-	<u>(389,757)</u>	<u>(389,757)</u>
Total assets	<u>\$ 574,001</u>	<u>752,100</u>	<u>1,326,101</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Accounts payable	\$ 2,944	-	2,944
Accrued liabilities	263	-	263
Due to other governments	<u>185,911</u>	<u>-</u>	<u>185,911</u>
Total liabilities	<u>189,118</u>	<u>-</u>	<u>189,118</u>
Deferred inflows of resources			
Unavailable revenue - taxes	<u>72,420</u>	<u>-</u>	<u>72,420</u>
Fund balances			
Unassigned	<u>312,463</u>		
Total fund balances	<u>312,463</u>		
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 574,001</u>		
Net position			
Net investment in capital assets			752,100
Unrestricted			<u>312,463</u>
Total net position			<u>\$ 1,064,563</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, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Revenues			
Property taxes	\$ 166,737	\$ -	\$ 166,737
Intergovernmental revenues			
Charges	37,341	-	37,341
Interest earnings	<u>89</u>	<u>-</u>	<u>89</u>
	<u>204,167</u>	<u>-</u>	<u>204,167</u>
 Expenditures			
Current			
General government	<u>186,254</u>	<u>26,328</u>	<u>212,582</u>
Total expenditures	<u>186,254</u>	<u>26,328</u>	<u>212,582</u>
Net changes in fund balances	17,913	(17,913)	
Change in net position		(8,415)	(8,415)
Fund balances/net position, beginning of year	<u>294,550</u>	<u>778,428</u>	<u>1,072,978</u>
Fund balances/net position, end of year	<u>\$ 312,463</u>	<u>\$ 752,100</u>	<u>\$ 1,064,563</u>

INTERNAL CONTROL AND COMPLIANCE



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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, 2016

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, 2015, 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, 2016.

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, 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 as items 2015-001 and 2015-002 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*.

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. 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.

Uredaxold Haefner LLC

CITY OF MUSKEGON HEIGHTS

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2015

FINANCIAL STATEMENT FINDINGS

2015-001

Condition and Criteria: The City's system of controls does not enable it to prepare the financial statements 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 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 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.

2015-002

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.



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June 30, 2016

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, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 15, 2016. 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. The City adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, in 2015. 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 disclosures of contingencies in Note 11 and economic dependency 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.

Specializing in services to governmental and nonprofit entities

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, 2016.

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 during the performance of our audit:

Finance and Accounting Department staffing

We noted that the staffing level in the Finance and Accounting Department are insufficient to perform the management, accounting and financial reporting functions assigned in a timely manner. We recommend that the Council review the staffing level and assigned activities of the Finance and Accounting Department for consistency with Council management, accounting and financial reporting expectations.

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.

Bank reconciliations

During our review of bank reconciliations we noted reconciliations were not always prepared in a timely manner. We recommend that the City modify its policies and procedures to ensure that timely reconciliation of each bank account balance to the general ledger.

Outstanding Checks

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

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.

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, a reconciliation process between balances reported in the income tax system and the balances reported on the general ledger is performed and enforcement of the City's Income Tax Ordinance occurs in a timely manner.

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 noted an instance where delays in drawing on grant funding resulted in a loss to the City because the grant providing funding was closed before a final City draw occurred. We recommend developing and implementing policies and procedures to ensure timely and accurate submission of grant reimbursement requests.

SEC Continuing Disclosure

We noted that the City has not prepared and submitted/distributed continuing disclosure of specific information require by both bond agreements and the Security Exchange Commission. We recommend the City develop policies and procedures to assure completion and timely submission of continuing disclosure for all applicable 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 policies and 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 content, 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.

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