

CITY OF MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016



Vredeveld Haefner LLC
CPAs and Consultants

CITY OF MUSKEGON HEIGHTS

TABLE OF CONTENTS

FINANCIAL SECTION	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10-11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Position of Governmental Activities on the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Statement of Net Position - Fiduciary Funds	19
Statement of Changes in Net Position - Private Purpose Trust	20
Notes to Financial Statements	21-42
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	43
Budget and Actual - Major Street Fund	44
Defined Benefit Pension Plan – Schedule of Changes in Employers Net Pension Liability and Related Ratios	45
Defined Benefit Pension Plan - Schedule of Employer Contributions	46
Retiree Other Post-employment Benefit Plan - Schedule of Funding Progress and Schedule of employer contributions	47
Combining and Individual Fund Statements and Schedules	
General fund	
Schedule of Expenditures - Budget and Actual	49
Nonmajor Governmental Funds	
Combining Balance Sheet	50-51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	52-53
Agency Funds	
Agency Fund Combining Statements of Assets and Liabilities	54

CITY OF MUSKEGON HEIGHTS

TABLE OF CONTENTS

	<u>PAGE</u>
Downtown Development Authority	
Combining Balance Sheet/Statement of Net Position	55
Combining Statements of Revenues, Expenditures and Changes in Fund Balance/ Statements of Activities	56
Internal Controls Compliance	
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 <i>Government Auditing Standards</i>	57-58
Schedule of Findings	59



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INDEPENDENT AUDITORS' REPORT

June 30, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 43 through 47 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, 2017 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.

Urodeuxeld 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, 2016. 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 2016 fiscal year as follows:

- The SAFER (Safe Assistance to Firefighters) grant through FEMA was expected to end in April of 2016, however the City was granted an extension until August 31, 2016 due to lower expenses than initially expected.
- The City received a \$35,000 grant from the United States Department of Agriculture (USDA) to start up the City's Farmers Market which had been closed for about 25 years. With the closing of the only local grocery store, the Farmers Market provides fresh produce to residents during the summer months.

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 2016. 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 and major streets funds 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, additional required supplementary information, combining statements and schedules and the internal control 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, liabilities exceeded assets by \$1,701,997 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>	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 3,716,665	\$ 3,909,098	\$ 6,774,390	\$ 8,137,431	\$10,491,055	\$12,046,529
Capital assets	6,254,401	6,793,253	14,599,716	15,542,168	20,854,117	22,335,421
Total assets	9,971,066	10,702,351	21,374,106	23,679,599	31,345,172	34,381,950
Deferred outflows	3,347,861	1,002,024	543,730	172,253	3,891,591	1,174,277
Liabilities						
Current liabilities	693,739	598,775	648,849	289,810	1,342,588	888,585
Long-term liabilities	19,100,335	15,365,137	15,492,252	15,630,495	34,592,587	30,995,632
Total liabilities	19,794,074	15,963,912	16,141,101	15,920,305	35,935,175	31,884,217
Deferred inflows	993,954	1,043,883	9,631	-	1,003,585	1,043,883
Net Position						
Net Investment in capital assets	3,933,518	4,248,902	2,270,857	2,568,033	6,204,375	6,816,935
Restricted	1,105,311	962,379	1,339,367	1,338,035	2,444,678	2,300,414
Unrestricted	(12,507,930)	(10,514,701)	2,156,880	4,025,479	(10,351,050)	(6,489,222)
Total net position	(\$7,469,101)	\$ (5,303,420)	\$5,767,104	\$7,931,547	\$(1,701,997)	\$ 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 \$2,444,678 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 negative unrestricted net position and positive net investment in capital assets and restricted net position for the governmental activities. Business-type activities reported positive net position in all three categories of net position.

Statement of Activities The City's total revenue for the fiscal year ended December 31, 2016, was \$12,250,649. The total cost of all programs and services was \$16,580,773 of which \$1,612,476 represents depreciation expense. This results in a net position decrease at the end of the fiscal year of \$4,330,124. 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>	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$1,212,137	\$1,061,989	\$4,311,784	\$5,189,011	\$5,523,921	\$6,251,000
Operating grants and contributions	1,746,451	1,911,665	667,210	328,886	2,413,661	2,240,551
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes	1,885,687	1,805,067	-	-	1,885,687	1,805,067
Income taxes	993,619	963,708	-	-	993,619	963,708
State shared revenues	1,423,615	1,402,459	-	-	1,423,615	1,402,459
Investment earnings	114	-	10,032	12,025	10,146	12,025
Total revenues	7,261,623	7,144,888	4,989,026	5,529,922	12,250,649	12,674,810
Expenses						
General government	1,325,137	1,399,045	-	-	1,325,137	1,399,045
Public safety	5,474,297	4,462,372	-	-	5,474,297	4,462,372
Public works and streets	2,492,858	2,311,053	-	-	2,492,858	2,311,053
Culture and recreation	74,692	145,422	-	-	74,692	145,422
Community development	321,308	334,980	-	-	321,308	334,980
Interest on long-term debt	99,012	107,978	-	-	99,012	107,978
Sewer	-	-	2,124,908	1,599,608	2,124,908	1,599,608
Water	-	-	2,207,505	2,306,262	2,207,505	2,306,262
Water supply	-	-	2,461,056	2,638,722	2,461,056	2,638,722
Total expenses	9,787,304	8,760,850	6,793,469	6,544,592	16,580,773	15,305,442
Transfers in (out)	360,000	270,000	(360,000)	(270,000)	-	-
Increase (decrease) in net position	(2,165,681)	(1,345,962)	(2,164,443)	(1,284,670)	(4,330,124)	(2,630,632)
Net position – beginning	(5,303,420)	(3,957,458)	7,931,547	9,216,217	2,628,127	5,258,759
Net position – ending	\$(7,469,101)	\$(5,303,420)	\$5,767,104	\$7,931,547	\$(1,701,997)	\$2,628,127

Governmental Activities The preceding table shows that the governmental activities decreased the City's net position by \$2,165,681 during this fiscal year. This decrease is primarily the result of changes in the City's net pension and OPEB liabilities.

Business-type Activities Business-type activities decreased the City's net position by \$2,164,443 during this fiscal year. This decrease is primarily the result of changes in the City's net pension and OPEB liabilities and reduced revenue resulting from the loss of the City of Norton Shore and Fruitport Township as water customers.

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 \$2,034,649, a decrease of \$141,389 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 \$503,788 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 \$313,590, during the current fiscal year. The change in fund balance was primarily the result of additional public safety expenditures and reduced grant funding.

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 \$(106,770), \$(943,796), and \$(1,113,877), respectively.

General Fund Budgetary Highlights

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

- Additional police and fire staffing resulted in expenditures in excess of budget.
- The City Manager budget was overstated because the position of City Manager was not filled until October of 2016.
- The City had street replacement/repair projects scheduled in 2016 in the major street fund, however due to engineering and the bid process for contractors, the projects were not completed. These projects are scheduled for 2017.

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, 2016, amounted to \$20,854,117 (net of accumulated depreciation). Of this amount, \$6,254,401 was for its governmental type activities and \$14,599,716 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 department radios and vehicle replacements.

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 bonds and notes payable of \$2,406,628 and \$12,465,000 for governmental activities and business-type activities respectively.

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 2017 fiscal year:

- After reviewing health insurance costs, the City is changing to a medicare advantage plan that will save approximately \$57,000.00 in FY2017 for post 65 retirees.
- The City's millage rate has remained unchanged for a couple of decades, however with failing street infrastructure, the City will be placing a request on the August 2017 ballot for a dedicated 4 mil property tax for ten (10) years for streets, Major and Local. This millage request is expected to generate about \$400,000.00 annually in revenues to repair streets in poor condition and to do preventative maintenance on those streets that are in fair to good condition.

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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Assets				
Cash and pooled investments	\$ 1,232,138	\$ 5,314,564	\$ 6,546,702	\$ 567,050
Receivables				
Accounts	96,429	968,688	1,065,117	-
Property taxes	473,199	-	473,199	22,833
Income taxes	225,442	-	225,442	-
Special assessment receivable	19,505	-	19,505	-
Due from other governments	1,456,031	323,896	1,779,927	-
Inventory	34,636	31,101	65,737	-
Prepaid items	140,285	-	140,285	-
Asset held for resale	39,000	-	39,000	-
Internal balances	-	-	-	-
Capital assets				
Land	259,408	40,012	299,420	294,635
Depreciable capital assets, net	5,994,993	14,559,704	20,554,697	431,138
Bond discounts	-	136,141	136,141	-
Total assets	9,971,066	21,374,106	31,345,172	1,315,656
Deferred outflow				
Pension related	3,347,861	543,730	3,891,591	-
Liabilities				
Accounts payable	523,313	530,917	1,054,230	2,714
Accrued liabilities	84,623	117,932	202,555	-
Due to other governments	41,000	-	41,000	260,911
Unearned revenue	44,803	-	44,803	-
Noncurrent liabilities				
Other post-employment benefits	4,755,923	1,107,237	5,863,160	-
Net pension liability	11,597,085	1,873,800	13,470,885	-
Due within one year	429,301	720,886	1,150,187	-
Due in more than one year	2,318,026	11,790,329	14,108,355	-
Total liabilities	19,794,074	16,141,101	35,935,175	263,625
Deferred inflows of resources				
Unavailable revenue - taxes	934,347	-	934,347	48,749
Pension related	59,607	9,631	69,238	-
	993,954	9,631	1,003,585	48,749
Net position				
Net investment in capital assets	3,933,518	2,270,857	6,204,375	725,773
Restricted for				
Debt service	-	1,339,367	1,339,367	-
Major streets	800,985	-	800,985	-
Local streets	2,671	-	2,671	-
Cemetery perpetual care	301,655	-	301,655	-
Unrestricted (deficit)	(12,507,930)	2,156,880	(10,351,050)	277,509
Total net position	\$ (7,469,101)	\$ 5,767,104	\$ (1,701,997)	\$ 1,003,282

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

CITY OF MUSKEGON HEIGHTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
General government	\$ 1,325,137	\$ 633,006	\$ 14,910	\$ -	\$ (677,221)
Public safety	5,474,297	297,126	374,868	-	(4,802,303)
Public works and streets	2,492,858	258,603	989,513	-	(1,244,742)
Culture and recreation	74,692	14,884	1,195	-	(58,613)
Community development	321,308	8,518	365,965	-	53,175
Interest on long-term debt	99,012	-	-	-	(99,012)
Total governmental activities	<u>9,787,304</u>	<u>1,212,137</u>	<u>1,746,451</u>	<u>-</u>	<u>(6,828,716)</u>
Business-type activities					
Sewer	2,124,908	1,460,928	667,210	-	3,230
Water	2,207,505	1,374,525	-	-	(832,980)
Water supply	2,461,056	1,476,331	-	-	(984,725)
Total business-type activities	<u>6,793,469</u>	<u>4,311,784</u>	<u>667,210</u>	<u>-</u>	<u>(1,814,475)</u>
Total primary government	<u>\$ 16,580,773</u>	<u>\$ 5,523,921</u>	<u>\$ 2,413,661</u>	<u>\$ -</u>	<u>\$ (8,643,191)</u>
Component units					
Downtown Development Authority	\$ 218,252	\$ 38,191	\$ -	\$ -	\$ (180,061)
Total component units	<u>\$ 218,252</u>	<u>\$ 38,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,061)</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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net position				
Net (expense) revenue	\$ (6,828,716)	\$ (1,814,475)	\$ (8,643,191)	\$ (180,061)
General revenues				
Property taxes	1,885,687	-	1,885,687	118,695
Income taxes	993,619	-	993,619	-
State shared revenues - unrestricted	1,423,615	-	1,423,615	-
Interest earnings	114	10,032	10,146	85
Transfers - internal activities	<u>360,000</u>	<u>(360,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>4,663,035</u>	<u>(349,968)</u>	<u>4,313,067</u>	<u>118,780</u>
Change in net position	(2,165,681)	(2,164,443)	(4,330,124)	(61,281)
Net position, beginning of year	<u>(5,303,420)</u>	<u>7,931,547</u>	<u>2,628,127</u>	<u>1,064,563</u>
Net position, end of year	<u>\$ (7,469,101)</u>	<u>\$ 5,767,104</u>	<u>\$ (1,701,997)</u>	<u>\$ 1,003,282</u>

(Concluded)

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

CITY OF MUSKEGON HEIGHTS

**GOVERNMENTAL FUNDS
BALANCE SHEET**

DECEMBER 31, 2016

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 402,117	\$ 454,249	\$ 375,772	\$ 1,232,138
Receivables				
Accounts	77,873	599	17,957	96,429
Property taxes	473,199	-	-	473,199
Income taxes	225,442	-	-	225,442
Special assessment	-	19,505	-	19,505
Due from other funds	352,302	-	-	352,302
Due from other governments	706,756	374,051	375,224	1,456,031
Inventory	34,636	-	-	34,636
Asset held for resale	39,000	-	-	39,000
Prepaid items	140,285	-	-	140,285
Total assets	<u>\$ 2,451,610</u>	<u>\$ 848,404</u>	<u>\$ 768,953</u>	<u>\$ 4,068,967</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 439,317	\$ 24,626	\$ 59,370	\$ 523,313
Accrued liabilities	61,434	3,288	4,514	69,236
Due to other funds	-	-	352,302	352,302
Due to other governments	-	-	41,000	41,000
Deferred revenue	39,655	-	5,148	44,803
Total liabilities	<u>540,406</u>	<u>27,914</u>	<u>462,334</u>	<u>1,030,654</u>
Deferred inflows of resources				
Unavailable revenue - long-term receivables	48,850	19,505	962	69,317
Unavailable revenue - taxes	934,347	-	-	934,347
Total deferred inflows of resources	<u>983,197</u>	<u>19,505</u>	<u>962</u>	<u>1,003,664</u>
Fund balances				
Nonspendable				
Inventory	34,636	-	-	34,636
Prepays	140,285	-	-	140,285
Restricted				
Streets	-	800,985	2,671	803,656
Cemetery care	-	-	301,655	301,655
Restricted contributions	-	-	1,331	1,331
Assigned				
Subsequent years expenditures	249,298	-	-	249,298
Unassigned	503,788	-	-	503,788
Total fund balances	<u>928,007</u>	<u>800,985</u>	<u>305,657</u>	<u>2,034,649</u>
Total liabilities deferred inflows and fund balances	<u>\$ 2,451,610</u>	<u>\$ 848,404</u>	<u>\$ 768,953</u>	<u>\$ 4,068,967</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, 2016

Fund balances - total governmental funds	\$ 2,034,649
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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)	5,994,993

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

Add - unavailable revenue	69,317
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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	(340,699)
Deduct - other post-employment benefits	(4,755,923)
Deduct - net pension liability	(11,597,085)
Add - deferred outflows related to pensions	3,347,861
Deduct - deferred inflows related to pensions	(59,607)
Deduct - long-term debt	(2,406,628)
Deduct - accrued interest on bonds	<u>(15,387)</u>

Net position of governmental activities	<u>\$ (7,469,101)</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, 2016

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes				
Property	\$ 1,885,687	\$ -	\$ -	\$ 1,885,687
Income	993,619	-	-	993,619
Intergovernmental revenues				
Federal	364,981	-	260,436	625,417
State	1,441,222	706,903	235,181	2,383,306
Local	10,980	-	-	10,980
Other	75,000	-	-	75,000
Private grants	16,105	-	-	16,105
Licenses and permits	120,131	-	-	120,131
Charges for services	897,659	14,152	4,089	915,900
Fines	72,176	-	-	72,176
Interest earnings	114	2,445	6,231	8,790
Miscellaneous	121,527	3,742	-	125,269
Total revenues	<u>5,999,201</u>	<u>727,242</u>	<u>505,937</u>	<u>7,232,380</u>
Expenditures				
Current				
General government	1,508,698	-	-	1,508,698
Public safety	3,856,615	-	-	3,856,615
Public works and streets	898,289	494,297	282,988	1,675,574
Community development	46,877	-	260,436	307,313
Culture and recreation	60,838	-	-	60,838
Debt service				
Principal	174,166	-	50,000	224,166
Interest	84,117	-	16,448	100,565
Total expenditures	<u>6,629,600</u>	<u>494,297</u>	<u>609,872</u>	<u>7,733,769</u>
Revenues over (under) expenditures	<u>(630,399)</u>	<u>232,945</u>	<u>(103,935)</u>	<u>(501,389)</u>
Other financing sources (uses)				
Transfers in	360,000	-	136,448	496,448
Transfers out	<u>(43,191)</u>	<u>(70,000)</u>	<u>(23,257)</u>	<u>(136,448)</u>
Total other financing sources (uses)	<u>316,809</u>	<u>(70,000)</u>	<u>113,191</u>	<u>360,000</u>
Net changes in fund balances	(313,590)	162,945	9,256	(141,389)
Fund balances, beginning of year	<u>1,241,597</u>	<u>638,040</u>	<u>296,401</u>	<u>2,176,038</u>
Fund balances, end of year	<u>\$ 928,007</u>	<u>\$ 800,985</u>	<u>\$ 305,657</u>	<u>\$ 2,034,649</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, 2016

Net changes in fund balances - total governmental funds	\$ (141,389)
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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	123,015
Deduct - depreciation expense	(661,867)

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	231,361
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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.

Add - change in compensated absences	41,102
Deduct - change in other post-employment benefits	(574,015)
Deduct - change in net pension liability	(3,433,646)
Add - change in deferred outflows related to pensions	2,345,837
Deduct - change in deferred inflows related to pensions	(59,607)
Deduct - change in deferred revenue	(38,025)
Add - change in accrued interest	<u>1,553</u>

Change in net position of governmental activities	<u>\$ (2,165,681)</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, 2016

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Assets				
Current assets				
Cash and pooled investments	\$ 221,142	\$ -	\$ 3,754,055	\$ 3,975,197
Accounts receivable	472,400	495,287	1,001	968,688
Due from other funds	-	-	1,581,424	1,581,424
Inventory	-	12,491	18,610	31,101
Due from other governments	<u>323,896</u>	<u>-</u>	<u>-</u>	<u>323,896</u>
Total current assets	<u>1,017,438</u>	<u>507,778</u>	<u>5,355,090</u>	<u>6,880,306</u>
Noncurrent assets				
Capital assets				
Land	2,246	-	37,766	40,012
Infrastructure and plant	3,693,989	2,047,233	28,058,293	33,799,515
Less accumulated depreciation	<u>(2,722,424)</u>	<u>(1,872,064)</u>	<u>(14,645,323)</u>	<u>(19,239,811)</u>
Net capital assets	973,811	175,169	13,450,736	14,599,716
Restricted cash and pooled investments	-	-	1,339,367	1,339,367
Bond discount	<u>-</u>	<u>-</u>	<u>136,141</u>	<u>136,141</u>
Total noncurrent assets	<u>973,811</u>	<u>175,169</u>	<u>14,926,244</u>	<u>16,075,224</u>
Total assets	<u>1,991,249</u>	<u>682,947</u>	<u>20,281,334</u>	<u>22,955,530</u>
Deferred outflow				
Pension related	<u>120,621</u>	<u>152,468</u>	<u>270,641</u>	<u>543,730</u>
Liabilities				
Current liabilities				
Accounts payable	427,156	42,164	61,597	530,917
Accrued liabilities	2,797	24,198	90,937	117,932
Due to other funds	-	1,581,424	-	1,581,424
Current portion of long-term debt	<u>6,400</u>	<u>10,787</u>	<u>703,699</u>	<u>720,886</u>
Total current liabilities	<u>436,353</u>	<u>1,658,573</u>	<u>856,233</u>	<u>2,951,159</u>
Long-term liabilities				
Other post-employment benefits	342,880	293,683	470,674	1,107,237
Net pension liability	416,250	529,406	928,144	1,873,800
Long-term debt, net of current portion	<u>213</u>	<u>2,586</u>	<u>11,787,530</u>	<u>11,790,329</u>
Total long-term liabilities	<u>759,343</u>	<u>825,675</u>	<u>13,186,348</u>	<u>14,771,366</u>
Total liabilities	<u>1,195,696</u>	<u>2,484,248</u>	<u>14,042,581</u>	<u>17,722,525</u>
Deferred inflow				
Pension related	<u>2,139</u>	<u>2,721</u>	<u>4,771</u>	<u>9,631</u>
Net position				
Net investment in capital assets	973,811	175,169	1,121,877	2,270,857
Restricted for debt service	-	-	1,339,367	1,339,367
Unrestricted (deficit)	<u>(59,776)</u>	<u>(1,826,723)</u>	<u>4,043,379</u>	<u>2,156,880</u>
Total net position	<u>\$ 914,035</u>	<u>\$ (1,651,554)</u>	<u>\$ 6,504,623</u>	<u>\$ 5,767,104</u>

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

CITY OF MUSKEGON HEIGHTS

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Operating revenue				
Charges for services	\$ 1,460,928	\$ 1,378,039	\$ 1,174,040	\$ 4,013,007
Charges for debt service and other	-	-	302,291	302,291
Total operating revenue	<u>1,460,928</u>	<u>1,378,039</u>	<u>1,476,331</u>	<u>4,315,298</u>
Operating expense				
Personnel services	130,198	153,490	219,274	502,962
Benefits	147,268	249,339	248,801	645,408
Contractual/professional services	1,739,506	1,581,956	146,700	3,468,162
Materials and supplies	11,800	52,960	81,850	146,610
Utilities	3,289	65,964	306,495	375,748
Repair and maintenance	17,510	1,808	5,483	24,801
Depreciation	38,044	29,378	883,187	950,609
Miscellaneous	37,293	76,940	14,220	128,453
Total operating expense	<u>2,124,908</u>	<u>2,211,835</u>	<u>1,906,010</u>	<u>6,242,753</u>
Operating income (loss)	<u>(663,980)</u>	<u>(833,796)</u>	<u>(429,679)</u>	<u>(1,927,455)</u>
Non-operating revenue (expense)				
State grants	667,210	-	-	667,210
Interest income	-	-	10,032	10,032
Interest expense	-	-	(554,230)	(554,230)
Total non-operating revenue (expense)	<u>667,210</u>	<u>-</u>	<u>(544,198)</u>	<u>123,012</u>
Income (loss) before transfers	3,230	(833,796)	(973,877)	(1,804,443)
Other financing sources and (uses)				
Transfers in	-	-	-	-
Transfers out	(110,000)	(110,000)	(140,000)	(360,000)
Total transfers	<u>(110,000)</u>	<u>(110,000)</u>	<u>(140,000)</u>	<u>(360,000)</u>
Changes in net position	(106,770)	(943,796)	(1,113,877)	(2,164,443)
Net position, beginning of year	<u>1,020,805</u>	<u>(707,758)</u>	<u>7,618,500</u>	<u>7,931,547</u>
Net position, end of year	<u>\$ 914,035</u>	<u>\$ (1,651,554)</u>	<u>\$ 6,504,623</u>	<u>\$ 5,767,104</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, 2016

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 1,458,643	\$ 1,302,881	\$ 1,477,565	\$ 4,239,089
Payments to employees	(212,822)	(293,831)	(380,528)	(887,181)
Payments to suppliers	<u>(1,470,962)</u>	<u>(1,769,806)</u>	<u>(531,378)</u>	<u>(3,772,146)</u>
Net cash provided by (used in) operating activities	<u>(225,141)</u>	<u>(760,756)</u>	<u>565,659</u>	<u>(420,238)</u>
Cash flows from non-capital financing activities				
Loans (to) from other funds	-	870,756	(870,756)	-
Grant funding	362,419	-	-	362,419
Principal paid on note payable	(104,704)	-	-	(104,704)
Transfers out	<u>(110,000)</u>	<u>(110,000)</u>	<u>(140,000)</u>	<u>(360,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>147,715</u>	<u>760,756</u>	<u>(1,010,756)</u>	<u>(102,285)</u>
Cash flows from capital and related financing activities				
Interest paid	-	-	(548,806)	(548,806)
Principal paid on long-term debt	-	-	(655,000)	(655,000)
Acquisitions of capital assets	-	-	(8,157)	(8,157)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(1,211,963)</u>	<u>(1,211,963)</u>
Cash flows from investing activities				
Interest income	-	-	10,032	10,032
Net increase (decrease) in cash and pooled investments	(77,426)	-	(1,647,028)	(1,724,454)
Cash and pooled investments, beginning of year	<u>298,568</u>	<u>-</u>	<u>6,740,450</u>	<u>7,039,018</u>
Cash and pooled investments, end of year	<u>\$ 221,142</u>	<u>\$ -</u>	<u>\$ 5,093,422</u>	<u>\$ 5,314,564</u>
Cash flows from operating activities				
Operating income (loss)	\$ (663,980)	\$ (833,796)	\$ (429,679)	\$ (1,927,455)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	38,044	29,378	883,187	950,609
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(2,285)	(75,158)	1,234	(76,209)
Due from other governments	-	-	-	-
Inventory	-	8,096	1,766	9,862
Deferred inflow	2,139	2,721	4,771	9,631
Deferred outflow	(82,961)	(108,068)	(180,448)	(371,477)
Accounts payable	338,436	1,726	21,604	361,766
Accrued liabilities	1,293	(102)	383	1,574
Accrued compensated absences	23	881	8,367	9,271
Accrued other post-employment benefits	34,713	45,878	61,123	141,714
Net pension liability	<u>109,437</u>	<u>167,688</u>	<u>193,351</u>	<u>470,476</u>
Net cash provided by (used in) operating activities	<u>\$ (225,141)</u>	<u>\$ (760,756)</u>	<u>\$ 565,659</u>	<u>\$ (420,238)</u>

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

CITY OF MUSKEGON HEIGHTS

FIDUCIARY FUNDS STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Private Purpose Trust Fund - John Hendrick Flower Fund	Agency Funds
Assets		
Cash and pooled investments	\$ 2,876	\$ 788,875
Due from other governments	-	<u>27,718</u>
Total assets	<u>\$ 2,876</u>	<u>\$ 816,593</u>
Liabilities		
Accounts payable	\$ -	\$ 313,211
Due to other governments	-	<u>503,382</u>
Total liabilities	-	<u>\$ 816,593</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, 2016

	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, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Discretely Presented Component Units

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are changes between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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

Cash and Pooled Investments

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

Investments

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

State statutes authorize the City to invest in:

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

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At year end allowance for uncollectible receivable balances were approximately \$90,000 and \$75,000 for water and sewer funds respectively.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Due to and Due from Other Funds

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

Inventory

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

Capital Assets

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

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their fair value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) 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.

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Compensated Absences

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has items that qualify for reporting in this category related to the Net Pension Liability that are discussed in Note 8.

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. The government has items that qualify for reporting in this category related to the Net Pension Liability that are discussed in Note 8.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

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

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Net Position and Fund Balance Flow Assumptions

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

Property Taxes

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

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

Grants and Other Intergovernmental Revenues

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

Interfund Transactions

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

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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.

During the year ended December 31, 2016, 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			
Mayor	\$ 6,642	\$ 7,240	\$ 598
Personnel	8,560	18,094	9,534
Elections	19,800	21,297	1,497
Assessor	119,232	126,318	7,086
City attorney	70,000	80,437	10,437
Motor pool	41,000	53,491	12,491
Cemetery	116,482	147,450	30,968
DTE test and tune program	-	14,600	14,600
Other general government	320,155	368,728	48,573
Public safety			
Police	2,104,938	2,250,267	145,329
Special investigations		688	688
Fire	1,183,102	1,384,291	201,189
Inspections	221,348	221,369	21
Public works			
Public works	75,600	105,434	29,834
Refuse collection	593,000	616,688	23,688
Community development			
Farmer's market	2,300	34,006	31,706
Planning	7,300	12,871	5,571
Nonmajor funds			
Local streets			
Public works	271,376	282,988	11,612

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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	\$6,546,702	\$567,050	\$791,751	<u>\$7,905,503</u>

Cash and pooled investments captions consist of the following at December 31, 2016:

Deposits and certificates of deposit	\$6,425,477
Mutual funds and securities	<u>1,480,026</u>
 Total	 <u>\$7,905,503</u>

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, \$6,536,545 of the City's bank balance of \$6,786,545 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	\$ 5,325	Unrated	
Federated Trust for US Treasury Obligations	N/A	1,335,164	AAAm	S&P
Ishares Core US Aggregate Bond Fund	N/A	9,185	3 star	Morningstar
Prudential Total Return Bond Fund	N/A	<u>130,352</u>	5 star	Morningstar
		<u>\$1,480,026</u>		

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of year end.

- The City does not have any investments that report fair value based on inputs that are quoted prices in active markets for identical assets (Level 1 inputs).
- Mutual fund accounts are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The City does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

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 \$1,480,026 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, 2016

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>Major Streets</u>	<u>Nonmajor governmental funds</u>
Unavailable property tax revenue	\$934,347	\$ -	\$ -
Unavailable special assessment revenue		19,505	-
Unavailable receivable	48,850	-	962
Total	<u>\$983,197</u>	<u>\$19,505</u>	<u>\$962</u>

5. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at December 31, 2016 were as follows:

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

	<u>Payable fund</u>		
<u>Receivable fund</u>	<u>Nonmajor governmental funds</u>	<u>Water fund</u>	<u>Total</u>
General fund	\$352,302	\$ -	\$ 352,302
Water supply fund	-	1,581,424	1,581,424
Total	<u>\$352,302</u>	<u>\$1,581,424</u>	<u>\$1,933,726</u>

Transfers in and out for the year ended December 31, 2016 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	\$ -	\$ 43,191	\$ 43,191
Major Streets	-	70,000	70,000
Enterprise			
Sewer	110,000	-	110,000
Water	110,000	-	110,000
Water Supply	140,000	-	140,000
Non-major governmental funds	-	23,257	23,257
Total	<u>\$360,000</u>	<u>\$136,448</u>	<u>\$496,448</u>

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, 2016

6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance December <u>31, 2016</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 259,408	\$ -	\$ -	\$ 259,408
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>259,408</u>	<u>-</u>	<u>-</u>	<u>259,408</u>
Capital assets, being depreciated				
Buildings and improvements	4,136,740	-	-	4,136,740
Equipment	1,429,236	43,837	-	1,473,073
Motor vehicles	2,590,147	79,178	14,370	2,654,955
Infrastructure	20,902,637	-	-	20,902,637
Total capital assets, being depreciated	<u>29,058,760</u>	<u>123,015</u>	<u>14,370</u>	<u>29,167,405</u>
Less accumulated depreciation for				
Buildings and improvements	1,655,018	158,644	-	1,813,662
Equipment	1,119,507	72,614	-	1,192,121
Motor vehicles	1,546,438	164,945	14,370	1,697,013
Infrastructure	18,203,952	265,664	-	18,469,616
Total accumulated depreciation	<u>22,524,915</u>	<u>661,867</u>	<u>14,370</u>	<u>23,172,412</u>
Net capital assets, being depreciated	<u>6,533,845</u>	<u>(538,852)</u>	<u>-</u>	<u>5,994,993</u>
Governmental Activities capital assets, net	<u>\$ 6,793,253</u>	<u>\$(538,852)</u>	<u>\$ -</u>	<u>\$ 6,254,401</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	2,062,322	-	-	2,062,322
Plant	22,310,453	8,157	-	22,318,610
Infrastructure	9,204,884	-	-	9,204,884
Total capital assets, being depreciated	<u>33,791,358</u>	<u>8,157</u>	<u>-</u>	<u>33,799,515</u>
Less accumulated depreciation for				
Buildings and improvements	95,520	8,512	-	104,032
Equipment	1,362,341	108,472	-	1,470,813
Plant	9,373,599	731,926	-	10,105,525
Infrastructure	7,457,742	101,699	-	7,559,441
Total accumulated depreciation	<u>18,289,202</u>	<u>950,609</u>	<u>-</u>	<u>19,239,811</u>
Net capital assets, being depreciated	<u>15,502,156</u>	<u>(942,452)</u>	<u>-</u>	<u>14,559,704</u>
Business-type Activities capital assets, net	<u>\$15,542,168</u>	<u>\$(942,452)</u>	<u>\$ -</u>	<u>\$14,599,716</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance December <u>31, 2016</u>
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	367,660	21,908	-	389,568
Infrastructure	22,097	4,419	-	26,516
Total accumulated depreciation	389,757	26,327	-	416,084
Net capital assets, being depreciated	457,465	(26,327)	-	431,138
DDA capital assets, net	\$752,100	\$(26,327)	\$ -	\$725,773

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

Governmental Activities	
General government	\$ 16,488
Public safety	46,166
Public works and streets	586,023
Culture and recreation	13,190
Total depreciation expense - governmental activities	\$661,867
Business-type Activities	
Sewer	\$ 38,044
Water	29,378
Water supply	883,187
Total depreciation expense - business-type activities	\$950,609

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, 2016

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2015):

Inactive employees or beneficiaries currently receiving benefits	97
Inactive employees entitled but not yet receiving benefits	17
Active plan members	<u>62</u>
Total	<u>176</u>

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was from 0 to 46.88% of annual covered payroll depending on position and classification. For divisions closed to new employees the employer has monthly employer contributions amount of \$2,481. 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, 2015, 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, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age) (4.5 for 2014)

Investment rate of return: 7.75%, net of investment expense, including inflation (8.25 for 2014)

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

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, 2016

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>	<u>Expected Money Weighted Rate of Return</u>
Global Equity	57.5%	6.27%	3.60%
Global Fixed Income	20.0%	3.43%	0.68%
Real Assets	12.5%	5.48%	0.69%
Diversifying Strategies	10.0%	7.81%	0.78%
Inflation			2.00%
Administrative fee			0.25%
Investment rate of return			<u>8.00%</u>

Discount rate. The discount rate used to measure the total pension liability is 8.00%. 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)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balance at 1/1/15	\$31,640,899	\$22,074,136	\$9,566,763
Changes for the Year:			
Service Cost	379,304	-	379,304
Interest	2,529,504	-	2,529,504
Change in benefits	-	-	-
Differences between expected and actual experience	(103,857)	-	(103,857)
Change in assumptions	1,773,233	-	1,773,233
Contributions : Employer	-	858,868	(858,868)
Contributions: Employee	-	175,584	(175,584)
Net Investment Income	-	(313,419)	313,419
Benefit Payments, including refunds	(2,339,795)	(2,339,795)	-
Administrative expense	-	(46,971)	46,971
Other Changes	-	-	-
Net Changes	<u>2,238,389</u>	<u>(1,665,733)</u>	<u>3,904,122</u>
Balance at 12/31/15	<u>\$33,879,288</u>	<u>\$20,408,403</u>	<u>\$13,470,885</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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%, 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.

	1% Decrease	Current Discount rate	1% increase
Total Pension Liability	\$37,532,854	\$33,879,288	\$30,791,883
Fiduciary Net Position	22,408,403	20,408,403	20,408,403
Net Pension Liability	<u>\$15,124,451</u>	<u>\$13,470,885</u>	<u>\$10,383,480</u>

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

For the year ended December 31, 2016 the employer recognized pension expense of \$2,066,419. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$69,238
Differences in assumptions	1,182,155	-
Excess(Deficit) Investment Returns	1,901,045	-
Contributions subsequent to the Measurement date*	808,391	-
Total	<u>\$3,891,591</u>	<u>\$69,238</u>

* 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:

2017	\$1,051,557
2018	1,051,557
2019	495,099
2020	415,749
2021	-
Thereafter	-
Total	<u>\$3,013,962</u>

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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 City Council and may be amended by the City Council. The plan is administered by MERS. The City and member contributions were \$2,660 and \$1,527, respectively, for the current year.

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 \$1,464,595 while actual contributions were \$612,286.

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	\$1,464,595
Interest on Net OPEB obligation	205,897
Adjustment to annual required contribution	<u>(342,477)</u>
Annual OPEB cost (expense)	1,328,015
Contribution made	<u>612,286</u>
Increase in net OPEB obligation	715,729
Net OPEB obligation, beginning of year	<u>5,147,431</u>
Net OPEB obligation, end of year	<u>\$5,863,160</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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
12/31/14	\$1,255,069	37%	\$4,334,460
12/31/15	1,304,369	38%	5,147,431
12/31/16	1,328,015	46%	5,863,160

Schedule of Funding Progress

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/14	\$ -	\$13,825,676	\$13,825,676	0%	\$2,545,231	543%

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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

9. LONG-TERM DEBT

The following is a summary of the City debt transactions for the year ended December 31, 2016:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Governmental Activities					
2013 Capital Improvement Bonds, due in annual installments of \$85,000 to \$145,000 through November 2028; plus interest at 3.35%	\$1,570,000	\$ -	\$100,000	\$1,470,000	\$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%	310,000	-	50,000	260,000	55,000
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	657,156	-	66,273	590,883	73,348
2007 Brownfield Redevelopment Grant Project due in monthly installments of \$9,297 including interest at 2% through October 20, 2026	93,638	-	7,893	85,745	8,012
Central Dispatch Phone System installment purchase due in annual installments of \$7,195 including interest at 0% through October 2016	7,195	-	7,195	-	-
Other post-employment benefits	4,181,908	574,015	-	4,755,923	-
Accrued employee benefits	381,801	159,723	200,825	340,699	191,941
Total Governmental Activities	\$7,201,698	\$733,738	\$432,186	\$7,503,250	\$428,301

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Balance</u> <u>January 1,</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December</u> <u>31, 2016</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Business-type Activities					
2005 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030; plus interest from 3.3% to 4.5%	\$5,380,000	\$ -	\$275,000	\$5,105,000	\$285,000
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%	7,740,000	-	380,000	7,360,000	400,000
2011 Muskegon County Note Payable due in monthly installments of \$11,634 through September 2016	104,704	-	104,704	-	-
Other post-employment benefits	965,523	141,714	-	1,107,237	-
Accrued employee benefits	36,943	37,723	28,451	46,215	35,886
Total Business-type Activities	<u>\$14,227,170</u>	<u>\$179,437</u>	<u>\$788,155</u>	<u>\$13,618,452</u>	<u>\$720,886</u>

Pledged Revenues

The City has pledged all future revenues of the water supply system, to repay \$16,465,000 of water supply system refunding revenue bonds issued in 2005 and 2006 in addition to funding water supply system operating and maintenance costs. 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 revenues and are payable through 2030. The total principal and interest remaining to be paid on these bonds is \$16,805,508. For the current year, principal and interest paid was \$1,202,306 and net revenues available for principal and interest payments was approximately \$450,000.

The City has covenanted and agreed to fix and maintain at all times while any of the bonds are outstanding such rates for service furnished by the water supply system as shall be sufficient to (i) provide the payment of principal of and interest on the bonds when due, (ii) provide for the creation and maintenance of a reserve therefore as required by ordinance, (iii) provide for the payment of expenses of administration and operation and such expenses for maintenance of the system as are necessary to preserve the water supply system in good repair and working order. In addition to the foregoing, the City shall prepare an annual budget for the water supply system in which net revenue for each future year are reasonably projected to be equal to not less than one hundred ten percent (110%) of the principal and interest requirements coming due during such fiscal year on the bonds. For the current year principal and interest payments on the bonds exceeded available net revenue. The City budget for fiscal years 2016 and 2017 did not meet the requirements of the above covenant.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of December 31, 2016 are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 237,360	\$ 91,449	\$ 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	236,911	45,793	795,000	407,238
2021-2025	814,566	120,392	4,470,000	1,521,487
2026-2030	285,000	14,404	4,310,000	491,101
Total	\$2,406,628	\$482,185	\$12,465,000	\$4,340,508

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 AND ECONOMIC DEPENDENCY

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.

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 2016. 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.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

12. 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, 2016 amounted to \$28,616. Future minimum lease payments for these leases are as follows:

2017	\$ 28,936
2018	28,936
2019	28,936
2020	20,795
2021	<u>320</u>
Total	<u>\$107,923</u>

13. TAX ABATEMENTS

The City entered into property tax abatements agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. These agreements provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government. The agreements entered into by the City include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The IFT is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%. The City's property tax abatements under this program were approximately \$17,500 for the year.

The City entered into property tax abatement agreements with 5 local organizations to provide housing for Elderly and Low Income Persons and Families and to encourage the development of such housing by providing for a service charge in lieu of property taxes in accordance with the State Housing Development Authority Act of 1966 (1966 PA 346, as amended, MCL 125.1401, et seq, MSA 116.11-4(1), et seq). Under the agreements the organization pays a percentage of annual shelter rent in lieu of taxes or the ad valorem property taxes whichever is smaller. The agreements are approved for terms dependent on the status of outstanding loans, participation in Low income housing tax credits, and rehabilitation of the property. The City property tax abatements under this program were approximately \$95,000 for the year.

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, 2016

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property	\$ 2,037,000	\$ 2,037,000	\$ 1,885,687	\$ (151,313)
Income	840,000	840,000	993,619	153,619
Intergovernmental revenues				
Federal	304,000	304,000	364,981	60,981
State	1,488,633	1,488,633	1,441,222	(47,411)
Local	-	-	10,980	10,980
Other	150,000	150,000	75,000	(75,000)
Private grants	-	-	16,105	16,105
Licenses and permits	123,000	123,000	120,131	(2,869)
Charges for services	929,850	929,850	897,659	(32,191)
Fines	65,000	65,000	72,176	7,176
Interest earnings	1,400	1,400	114	(1,286)
Miscellaneous	68,300	68,300	121,527	53,227
Total revenues	<u>6,007,183</u>	<u>6,007,183</u>	<u>5,999,201</u>	<u>(7,982)</u>
Expenditures				
Current				
General government	1,556,779	1,556,779	1,508,698	48,081
Public safety	3,509,388	3,509,388	3,856,615	(347,227)
Public works	893,600	893,600	898,289	(4,689)
Community development	9,600	9,600	46,877	(37,277)
Culture and recreation	83,919	83,919	60,838	23,081
Debt service				
Principal	174,166	174,166	174,166	-
Interest	84,413	84,413	84,117	296
Total expenditures	<u>6,311,865</u>	<u>6,311,865</u>	<u>6,629,600</u>	<u>(317,735)</u>
Revenues over (under) expenditures	<u>(304,682)</u>	<u>(304,682)</u>	<u>(630,399)</u>	<u>309,753</u>
Other financing sources (uses)				
Transfers in	370,000	370,000	360,000	(10,000)
Transfers out	(43,500)	(43,500)	(43,191)	309
Total other financing sources (uses)	<u>326,500</u>	<u>326,500</u>	<u>316,809</u>	<u>(9,691)</u>
Net changes in fund balance	21,818	21,818	(313,590)	(335,408)
Fund balance, beginning of year	<u>1,241,597</u>	<u>1,241,597</u>	<u>1,241,597</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,263,415</u>	<u>\$ 1,263,415</u>	<u>\$ 928,007</u>	<u>\$ (335,408)</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, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	716,940	716,940	706,903	(10,037)
Charges for services	-	-	14,152	14,152
Interest earnings	-	-	2,445	2,445
Miscellaneous	-	-	3,742	3,742
Total revenues	<u>716,940</u>	<u>716,940</u>	<u>727,242</u>	<u>10,302</u>
Expenditures				
Current				
Public works	<u>628,456</u>	<u>628,456</u>	<u>494,297</u>	<u>134,159</u>
Revenues over (under) expenditures	<u>88,484</u>	<u>88,484</u>	<u>232,945</u>	<u>(123,857)</u>
Other financing sources (uses)				
Transfers out	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>	<u>-</u>
Net changes in fund balance	18,484	18,484	162,945	144,461
Fund balance, beginning of year	<u>638,040</u>	<u>638,040</u>	<u>638,040</u>	<u>-</u>
Fund balance, end of year	<u>\$ 656,524</u>	<u>\$ 656,524</u>	<u>\$ 800,985</u>	<u>\$ 144,461</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, 2016

	2014	2015
Total pension liability		
Service cost	\$ 387,556	\$ 379,304
Interest	2,482,950	2,529,504
Changes in benefit terms	-	-
Difference between expected and actual experience	-	(103,857)
Changes in assumptions	-	1,773,233
Benefit payments including employee refunds	(2,353,931)	(2,339,795)
Other	44,769	-
	561,344	2,238,389
Net change in total pension liability		
Total pension liability, beginning of year	31,079,555	31,640,899
Total pension liability, ending of year	\$ 31,640,899	\$ 33,879,288
 Plan Fiduciary Net Position		
Contributions-employer	\$ 832,783	\$ 858,868
Contributions-employee	196,109	175,584
Net Investment income	1,368,217	(313,419)
Benefit payments including employee refunds	(2,353,931)	(2,339,795)
Administrative expense	(49,936)	(46,971)
	(6,758)	(1,665,733)
Net change in plan fiduciary net position		
Plan fiduciary net position, beginning of year	22,080,894	22,074,136
Plan fiduciary net position, ending of year	\$ 22,074,136	\$ 20,408,403
 Employer net pension liability	\$ 9,566,763	\$ 13,470,885
 Plan fiduciary net position as a percentage of the total pension liability	70%	60%
 Covered employee payroll	2,975,300	2,886,460
Employer's net pension liability as a percentage of covered employee payroll	322%	467%

Notes to schedule:

Above information is based on a December 31 measurement date.

CITY OF MUSKEGON HEIGHTS

DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2015	2016
Actuarial determined contributions	\$ 858,868	\$ 808,391
Contributions in relation to the actuarially determined contribution	858,868	808,391
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 2,975,300	 2,886,460
 Contributions as a percentage of covered employee payroll	 29%	 28%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed (10 years for 2014)
Inflation	2.5% (3-4% for 2014)
Salary increases	3.75% (4.5 for 2014)
Investment rate of return	7.75% (8.00 for 2014)
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 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>
2014	\$ 1,255,069	\$ 458,452	37%
2015	1,304,369	491,398	38%
2016	2,012,969	612,286	30%

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, 2016

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
General government				
City council	\$ 29,800	\$ 29,800	\$ 29,640	\$ 160
Mayor	6,642	6,642	7,240	(598)
City manager	140,175	140,175	64,667	75,508
Personnel	8,560	8,560	18,094	(9,534)
Elections	19,800	19,800	21,297	(1,497)
Income tax	74,077	74,077	71,198	2,879
Assessor	119,232	119,232	126,318	(7,086)
City attorney	70,000	70,000	80,437	(10,437)
City Clerk	110,942	110,942	107,532	3,410
Finance	239,247	239,247	172,858	66,389
Treasurer	57,072	57,072	52,130	4,942
Data processing	19,500	19,500	19,367	133
Buildings and grounds	184,095	184,095	153,651	30,444
Motor pool	41,000	41,000	53,491	(12,491)
Cemetery	116,482	116,482	147,450	(30,968)
DTE test and tune program	-	-	14,600	(14,600)
Other general government	320,155	320,155	368,728	(48,573)
	1,556,779	1,556,779	1,508,698	48,081
Public safety				
Police	2,104,938	2,104,938	2,250,267	(145,329)
Special investigations	-	-	688	(688)
Fire	1,183,102	1,183,102	1,384,291	(201,189)
Inspections	221,348	221,348	221,369	(21)
	3,509,388	3,509,388	3,856,615	(347,227)
Public works				
Public works	75,600	75,600	105,434	(29,834)
Street lighting	225,000	225,000	176,167	48,833
Refuse collection	593,000	593,000	616,688	(23,688)
	893,600	893,600	898,289	(4,689)
Community development				
Farmer's market	2,300	2,300	34,006	(31,706)
Planning	7,300	7,300	12,871	(5,571)
	9,600	9,600	46,877	(37,277)
Culture and recreation				
Parks	69,300	69,300	50,525	18,775
Library	12,119	12,119	10,295	1,824
Mona Lake boat launch	2,500	2,500	18	2,482
	83,919	83,919	60,838	23,081
Debt service				
Principal	174,166	174,166	174,166	-
Interest and fiscal charges	84,413	84,413	84,117	296
	258,579	258,579	258,283	296
Total expenditures	\$ 6,311,865	\$ 6,311,865	\$ 6,629,600	\$ (317,735)

CITY OF MUSKEGON HEIGHTS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

DECEMBER 31, 2016

	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>	<u>Cemetery Perpetual Care</u>
Assets				
Cash and pooled investments	\$ -	\$ -	\$ 27,602	\$ 299,389
Receivables				
Accounts	-	-	14,729	3,228
Due from other governments	<u>137,110</u>	<u>141,606</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 137,110</u>	<u>\$ 141,606</u>	<u>\$ 42,331</u>	<u>\$ 302,617</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 3,953	\$ 6,636	\$ -	\$ -
Accrued liabilities	2,531	1,983	-	-
Due to other funds	127,955	127,839	-	-
Due to other governments	-	-	41,000	-
Unearned revenue	<u>-</u>	<u>5,148</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>134,439</u>	<u>141,606</u>	<u>41,000</u>	<u>-</u>
Deferred inflows of resources				
Unavailable revenue - long-term receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>962</u>
Fund balances				
Restricted				
Streets	2,671	-	-	-
Cemetery care	-	-	-	301,655
Restricted contributions	<u>-</u>	<u>-</u>	<u>1,331</u>	<u>-</u>
Total fund balances	<u>2,671</u>	<u>-</u>	<u>1,331</u>	<u>301,655</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 137,110</u>	<u>\$ 141,606</u>	<u>\$ 42,331</u>	<u>\$ 302,617</u>

<u>MDNR Trust</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ 48,781	\$ -	\$ 375,772
-	-	-	17,957
<u>96,508</u>	<u>-</u>	<u>-</u>	<u>375,224</u>
<u>\$ 96,508</u>	<u>\$ 48,781</u>	<u>\$ -</u>	<u>\$ 768,953</u>
\$ -	\$ 48,781	\$ -	\$ 59,370
-	-	-	4,514
96,508	-	-	352,302
-	-	-	41,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,148</u>
<u>96,508</u>	<u>48,781</u>	<u>-</u>	<u>462,334</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>962</u>
-	-	-	2,671
-	-	-	301,655
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,331</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>305,657</u>
<u>\$ 96,508</u>	<u>\$ 48,781</u>	<u>\$ -</u>	<u>\$ 768,953</u>

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>	<u>Cemetery Perpetual Care</u>
Revenues				
Federal	\$ -	\$ 260,436	\$ -	\$ -
State	235,181	-	-	-
Charges for services	-	-	-	4,089
Interest earnings	-	-	519	5,712
Total revenues	<u>235,181</u>	<u>260,436</u>	<u>519</u>	<u>9,801</u>
Expenditures				
Current				
Public works and streets	282,988	-	-	-
Community development	-	260,436	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>282,988</u>	<u>260,436</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>(47,807)</u>	<u>-</u>	<u>519</u>	<u>9,801</u>
Other financing sources (uses)				
Transfers in	70,000	-	-	-
Transfers out	<u>(23,257)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>46,743</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(1,064)	-	519	9,801
Fund balances, beginning of year	<u>3,735</u>	<u>-</u>	<u>812</u>	<u>291,854</u>
Fund balances, end of year	<u>\$ 2,671</u>	<u>\$ -</u>	<u>\$ 1,331</u>	<u>\$ 301,655</u>

<u>MDNR Trust</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 260,436
-	-	-	235,181
-	-	-	4,089
-	-	-	6,231
-	-	-	505,937
-	-	-	282,988
-	-	-	260,436
-	-	50,000	50,000
-	-	16,448	16,448
-	-	66,448	609,872
-	-	(66,448)	(103,935)
-	-	66,448	136,448
-	-	-	(23,257)
-	-	66,448	113,191
-	-	-	9,256
-	-	-	296,401
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 305,657</u>

CITY OF MUSKEGON HEIGHTS

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

DECEMBER 31, 2016

	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 762,209	\$ 26,666	\$ 788,875
Due from other governments	<u>27,718</u>	<u>-</u>	<u>27,718</u>
Total assets	<u>\$ 789,927</u>	<u>\$ 26,666</u>	<u>\$ 816,593</u>
Liabilities			
Accounts payable	\$ 286,545	\$ 26,666	\$ 313,211
Due to other governments	<u>503,382</u>	<u>-</u>	<u>503,382</u>
Total liabilities	<u>\$ 789,927</u>	<u>\$ 26,666</u>	<u>\$ 816,593</u>

CITY OF MUSKEGON HEIGHTS

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

DECEMBER 31, 2016

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and pooled investments	\$ 567,050	\$ -	\$ 567,050
Property taxes receivable	22,833	-	22,833
Capital assets			
Land	-	294,635	294,635
Buildings	-	847,222	847,222
Accumulated depreciation	-	<u>(416,084)</u>	<u>(416,084)</u>
Total assets	<u>\$ 589,883</u>	<u>725,773</u>	<u>1,315,656</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Accounts payable	\$ 2,714	-	2,714
Due to other governments	<u>260,911</u>	<u>-</u>	<u>260,911</u>
Total liabilities	<u>263,625</u>	<u>-</u>	<u>263,625</u>
Deferred inflows of resources			
Unavailable revenue - taxes	<u>48,749</u>	<u>-</u>	<u>48,749</u>
Fund balances			
Nonspendable	-		
Assigned	-		
Unassigned	<u>277,509</u>		
Total fund balances	<u>277,509</u>		
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 589,883</u>		
Net position			
Net investment in capital assets			725,773
Unrestricted			<u>277,509</u>
Total net position			<u>\$ 1,003,282</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, 2016

	General Fund	Adjustments	Statement of Net Position
Revenues			
Property taxes	\$ 118,695	\$ -	\$ 118,695
Charges	38,191	-	38,191
Interest earnings	<u>85</u>	<u>-</u>	<u>85</u>
	<u>156,971</u>	<u>-</u>	<u>156,971</u>
Expenditures			
Current			
General government	<u>191,925</u>	<u>26,327</u>	<u>218,252</u>
Total expenditures	<u>191,925</u>	<u>26,327</u>	<u>218,252</u>
Net changes in fund balances	(34,954)	34,954	
Change in net position		(61,281)	(61,281)
Fund balances/net position, beginning of year	<u>312,463</u>	<u>752,100</u>	<u>1,064,563</u>
Fund balances/net position, end of year	<u>\$ 277,509</u>	<u>\$ 725,773</u>	<u>\$ 1,003,282</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, 2017

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, 2016, 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, 2017.

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 2016-001 and 2016-002 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.

We also noted certain other matters that we reported to management of the City, in a separate letter dated June 30, 2017.

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.

Urodeuxeld Haefner LLC

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDINGS

2016-001

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.

2016-002

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.