



# **CITY OF MUSKEGON HEIGHTS, MICHIGAN**

## **FINANCIAL STATEMENTS**

***FOR THE YEAR ENDED DECEMBER 31, 2021***



Vredeveld Haefner LLC  
CPAs and Consultants

# CITY OF MUSKEGON HEIGHTS

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### INDEPENDENT AUDITORS' REPORT

July 25, 2022

To the City Council  
City of Muskegon Heights, Michigan

#### Report on the Audit of the Financial Statements

##### **Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Muskegon Heights, Michigan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan, as of December 31, 2021, 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.

##### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Muskegon Heights, Michigan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

##### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Muskegon Heights, Michigan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

##### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Muskegon Heights, Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Muskegon Heights, Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and the budgetary comparison and benefit plan schedules on pages 47 through 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon Heights, Michigan's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2022, on our consideration of the City of Muskegon Heights, Michigan'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 solely 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 the effectiveness of the City of Muskegon Heights, Michigan's 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 City of Muskegon Heights, Michigan's internal control over financial reporting and compliance.

*Urodeuxeld Haefner LLC*

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## **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, 2021. 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 2021 fiscal year as follows:

- The City completed the grant funded Sherman Boulevard improvements.
- Governmental activities added approximately \$1,350,000 of capital assets consisting primarily of City infrastructure while proprietary funds added approximately \$90,000 of system improvements.
- Governmental activities paid approximately \$320,000 and business-type activities paid approximately \$360,000 of principal on long-term debt during the year.

## 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, deferred outflows, liabilities and deferred inflows, 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, earned but unused compensated absences, etc.).

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, and water 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 2021. 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, major streets, ARPA and Sherman Boulevard 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 special revenue 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, and water 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 and water operations, both 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 single audit section.

## Government-wide Financial Analysis

**Statement of Net Position** As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, liabilities exceeded assets by \$2,376,987 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>	
	2021	2020	2021	2020	2021	2020
<b>Assets</b>						
Current and other assets	\$ 9,602,228	\$ 3,776,199	\$ 3,266,750	\$ 3,320,305	\$12,868,978	\$ 7,096,504
Capital assets	9,622,272	9,153,537	11,419,334	12,292,909	21,041,606	21,446,446
<b>Total assets</b>	<b>19,224,500</b>	<b>12,929,736</b>	<b>14,686,084</b>	<b>15,613,214</b>	<b>33,910,584</b>	<b>28,542,950</b>
<b>Deferred outflows</b>	<b>2,463,032</b>	<b>2,667,729</b>	<b>743,193</b>	<b>507,589</b>	<b>3,206,225</b>	<b>3,175,318</b>
<b>Liabilities</b>						
Current liabilities	6,117,308	2,004,136	859,447	957,378	6,976,755	2,961,514
Long-term liabilities	22,719,259	22,144,591	7,906,321	8,197,046	30,625,580	30,341,637
<b>Total liabilities</b>	<b>28,836,567</b>	<b>24,148,727</b>	<b>8,765,768</b>	<b>9,154,424</b>	<b>37,602,335</b>	<b>33,303,151</b>
<b>Deferred inflows</b>	<b>1,686,852</b>	<b>1,299,825</b>	<b>204,609</b>	<b>10,936</b>	<b>1,891,461</b>	<b>1,310,761</b>
<b>Net Position</b>						
Net Investment in capital assets	8,390,016	7,823,436	7,111,205	7,687,909	15,501,221	15,511,345
Restricted	2,332,724	1,883,723	285,000	381,049	2,617,724	2,264,772
Unrestricted	(19,558,627)	(19,558,246)	(937,305)	(1,113,515)	(20,495,932)	(20,671,761)
<b>Total net position</b>	<b>\$(8,835,887)</b>	<b>\$(9,851,087)</b>	<b>\$6,458,900</b>	<b>\$6,955,443</b>	<b>\$(2,376,987)</b>	<b>\$(2,895,644)</b>

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 \$2,617,724 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 and business-type activities.

**Statement of Activities** The City's total revenue for the fiscal year ended December 31, 2021, was \$15,624,513 which included capital grants of \$402,531. The total cost of all programs and services was \$15,105,856 of which \$1,857,458 represents depreciation expense. This results in an increase in net position of \$518,657. 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>	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
Program revenues						
Charges for services	\$2,200,728	\$1,463,162	\$3,388,742	\$3,544,406	\$5,589,470	\$5,007,568
Operating grants and contributions	4,105,660	2,799,728	-	-	4,105,660	2,799,728
Capital grants and contributions	402,531	2,757,506	-	-	402,531	2,757,506
General revenues						
Property taxes	2,734,213	2,436,990	-	-	2,734,213	2,436,990
Income taxes	1,051,335	998,682	-	-	1,051,335	998,682
State shared revenues	1,731,815	1,468,628	-	-	1,731,815	1,468,628
Investment earnings	682	1,923	8,807	5,734	9,489	7,657
<b>Total revenues</b>	<b>12,226,964</b>	<b>11,926,619</b>	<b>3,397,549</b>	<b>3,550,140</b>	<b>15,624,513</b>	<b>15,476,759</b>
<b>Expenses</b>						
General government	2,039,449	1,763,508	-	-	2,039,449	1,763,508
Public safety	6,228,062	6,419,044	-	-	6,228,062	6,419,044
Public works and streets	2,485,243	2,063,174	-	-	2,485,243	2,063,174
Culture and recreation	61,478	167,512	-	-	61,478	167,512
Community development	723,725	702,554	-	-	723,725	702,554
Interest on long-term debt	49,807	54,202	-	-	49,807	54,202
Sewer	-	-	1,087,660	1,352,380	1,087,660	1,352,380
Water	-	-	2,430,432	2,675,746	2,430,432	2,675,746
<b>Total expenses</b>	<b>11,587,764</b>	<b>11,169,994</b>	<b>3,518,092</b>	<b>4,028,126</b>	<b>15,105,856</b>	<b>15,198,120</b>
<b>Transfers in (out)</b>	<b>376,000</b>	<b>376,000</b>	<b>(376,000)</b>	<b>(376,000)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>1,015,200</b>	<b>1,132,625</b>	<b>(496,543)</b>	<b>(853,986)</b>	<b>518,657</b>	<b>278,639</b>
<b>Net position – beginning</b>	<b>(9,851,087)</b>	<b>(10,983,712)</b>	<b>6,955,443</b>	<b>7,809,429</b>	<b>(2,895,644)</b>	<b>(3,174,283)</b>
<b>Net position – ending</b>	<b>\$(8,835,887)</b>	<b>\$(9,851,087)</b>	<b>\$6,458,900</b>	<b>\$6,955,443</b>	<b>\$(2,376,987)</b>	<b>\$(2,895,644)</b>

**Governmental Activities** The preceding table shows that the governmental activities increased the City's net position by \$1,015,200 during this fiscal year. This increase is primarily the result of ARPA grant funding used to cover a portion of fire and police department expenditures and changes in the City's net pension and OPEB liabilities.

**Business-type Activities** Business-type activities decreased the City's net position by \$496,543 during this fiscal year. This decrease is primarily the result of rates, expenses and changes in the City's net pension and OPEB liabilities.

## 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 \$2,784,873, an increase of approximately \$1,800,000 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 was \$452,149. Unassigned general fund fund balance was \$171,530. 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 increased by \$1,337,536, during the current fiscal year. The change in fund balance was primarily the result of ARPA funding of a portion of fire and police department expenditures.

Fund balance of the major streets fund increased by \$327,453, during the current fiscal year. The change in fund balance was primarily the result of gas and weight taxes exceeding expenditures.

The ARPA fund was created to record federal funding that will be recognized as revenue in the year in which the balance is expended.

The Sherman Boulevard grant funded project was completed in 2021.

**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 two separate and distinct activities. The sewer and water funds provide service to most residents and businesses of the City. The sewer and water funds experienced an increase and reduction in net position of \$572,395, and \$(1,068,938) respectively.

### General Fund Budgetary Highlights

General fund budget balances were not change during the year and general government and public safety expenditures significantly exceeded budget. Other financing sources from issuance of debt and transfers in from the ARPA fund were not budgeted.

### 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, 2021, amounted to \$21,041,606 (net of accumulated depreciation). Of this amount, \$9,622,272 was for its governmental activities and \$11,419,334 was for its business-type activities. This investment in capital assets includes land, buildings and equipment, vehicles and infrastructure.

Major capital asset additions during the current fiscal year included vehicle replacements and street improvements.

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 \$1,285,244 and \$4,245,000 for governmental 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 2022 fiscal year:

- Various inflationary increases in expenditures
- The City's millage rate has remains unchanged
- Wage and benefit rates based on employment agreements and know benefit rates.

## **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 City Manager, City of Muskegon Heights, 2724 Peck Street, Muskegon Heights, MI 49444.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF MUSKEGON HEIGHTS

## STATEMENT OF NET POSITION

DECEMBER 31, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash and pooled investments	\$ 6,661,482	\$ 2,322,893	\$ 8,984,375	\$ 332,377
Receivables				
Accounts	675,023	818,410	1,493,433	-
Property taxes	569,948	-	569,948	39,580
Income taxes	271,806	-	271,806	-
Due from other governments	1,131,534	17,864	1,149,398	-
Inventory	-	30,717	30,717	-
Prepaid items	239,623	13,737	253,360	-
Asset held for resale	52,812	-	52,812	-
Capital assets				
Land	239,408	40,012	279,420	294,635
Construction in progress	337,082	122,634	459,716	-
Depreciable capital assets, net	9,045,782	11,256,688	20,302,470	378,902
Bond discounts	-	63,129	63,129	-
<b>Total assets</b>	<b>19,224,500</b>	<b>14,686,084</b>	<b>33,910,584</b>	<b>1,045,494</b>
<b>Deferred outflows of resources</b>				
Pension and OPEB related	2,463,032	743,193	3,206,225	-
<b>Liabilities</b>				
Accounts payable	1,503,739	339,058	1,842,797	430
Accrued liabilities	168,913	76,576	245,489	-
Due to other governments	-	-	-	195,551
Unearned revenue	3,765,366	-	3,765,366	-
Due within one year	679,290	443,813	1,123,103	-
Noncurrent liabilities				
Total OPEB liability	7,341,301	1,542,396	8,883,697	-
Net pension liability	14,167,080	2,469,181	16,636,261	-
Due in more than one year	1,210,878	3,894,744	5,105,622	-
<b>Total liabilities</b>	<b>28,836,567</b>	<b>8,765,768</b>	<b>37,602,335</b>	<b>195,981</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue - taxes	1,275,072	-	1,275,072	19,790
Pension related	411,780	204,609	616,389	-
	<b>1,686,852</b>	<b>204,609</b>	<b>1,891,461</b>	<b>19,790</b>
<b>Net position</b>				
Net investment in capital assets	8,390,016	7,111,205	15,501,221	673,537
Restricted for				
Debt service	-	285,000	285,000	-
Major streets	1,391,754	-	1,391,754	-
Local and municipal streets	577,723	-	577,723	-
Cemetery perpetual care	342,915	-	342,915	-
Contributions	13,955	-	13,955	-
Unrestricted (deficit)	(19,552,250)	(937,305)	(20,489,555)	156,186
<b>Total net position</b>	<b>\$ (8,835,887)</b>	<b>\$ 6,458,900</b>	<b>\$ (2,376,987)</b>	<b>\$ 829,723</b>

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



**CITY OF MUSKEGON HEIGHTS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 2,039,449	\$ 889,247	\$ 182,038	\$ -	\$ (968,164)
Public safety	6,228,062	921,085	69,563	-	(5,237,414)
Public works and streets	2,485,243	353,251	1,564,683	402,531	(164,778)
Culture and recreation	61,478	31,492	3,600	-	(26,386)
Community development	723,725	5,653	2,285,776	-	1,567,704
Interest on long-term debt	49,807	-	-	-	(49,807)
<b>Total governmental activities</b>	<b>11,587,764</b>	<b>2,200,728</b>	<b>4,105,660</b>	<b>402,531</b>	<b>(4,878,845)</b>
Business-type activities					
Sewer	1,087,660	1,786,055	-	-	698,395
Water	2,430,432	1,602,687	-	-	(827,745)
<b>Total business-type activities</b>	<b>3,518,092</b>	<b>3,388,742</b>	<b>-</b>	<b>-</b>	<b>(129,350)</b>
<b>Total primary government</b>	<b>\$ 15,105,856</b>	<b>\$ 5,589,470</b>	<b>\$ 4,105,660</b>	<b>\$ 402,531</b>	<b>\$ (5,008,195)</b>
<b>Component units</b>					
Downtown Development Authority	\$ 58,270	\$ 72,158	\$ -	\$ -	\$ 13,888
<b>Total component units</b>	<b>\$ 58,270</b>	<b>\$ 72,158</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,888</b>

(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, 2021**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Changes in net position</b>				
<b>Net (expense) revenue</b>	\$ (4,878,845)	\$ (129,350)	\$ (5,008,195)	\$ 13,888
General revenues				
Property taxes	2,364,813	-	2,364,813	28,716
Property taxes - roads	369,400	-	369,400	-
Income taxes	1,051,335	-	1,051,335	-
State shared revenues - unrestricted	1,731,815	-	1,731,815	-
Interest earnings	682	8,807	9,489	49
Transfers - internal activities	<u>376,000</u>	<u>(376,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>5,894,045</u>	<u>(367,193)</u>	<u>5,526,852</u>	<u>28,765</u>
Change in net position	1,015,200	(496,543)	518,657	42,653
<b>Net position, beginning of year</b>	<u>(9,851,087)</u>	<u>6,955,443</u>	<u>(2,895,644)</u>	<u>787,070</u>
<b>Net position, end of year</b>	<u>\$ (8,835,887)</u>	<u>\$ 6,458,900</u>	<u>\$ (2,376,987)</u>	<u>\$ 829,723</u>

(Concluded)

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

**CITY OF MUSKEGON HEIGHTS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

**DECEMBER 31, 2021**

	<u>General</u>	<u>Major Streets</u>	<u>ARPA</u>	<u>Sherman Boulevard Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>						
Cash and pooled investments	\$ 465,960	\$ 1,372,113	\$ 3,743,461	\$ -	\$ 1,079,948	\$ 6,661,482
Receivables						
Accounts	672,323	-	-	-	2,700	675,023
Property taxes	476,853	-	-	-	93,095	569,948
Income taxes	271,806	-	-	-	-	271,806
Due from other funds	-	-	-	-	234,635	234,635
Due from other governments	462,214	251,269	-	-	418,051	1,131,534
Asset held for resale	52,812	-	-	-	-	52,812
Prepaid items	227,807	5,439	-	-	6,377	239,623
<b>Total assets</b>	<u>\$ 2,629,775</u>	<u>\$ 1,628,821</u>	<u>\$ 3,743,461</u>	<u>\$ -</u>	<u>\$ 1,834,806</u>	<u>\$ 9,836,863</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 933,940	\$ 159,921	\$ 1,222	\$ -	\$ 408,656	\$ 1,503,739
Accrued liabilities	141,250	6,540	-	-	10,886	158,676
Due to other funds	-	-	-	-	234,635	234,635
Unearned revenue	-	-	3,742,239	-	23,127	3,765,366
<b>Total liabilities</b>	<u>1,075,190</u>	<u>166,461</u>	<u>3,743,461</u>	<u>-</u>	<u>677,304</u>	<u>5,662,416</u>
<b>Deferred inflows of resources</b>						
Unavailable revenue - long-term receivables	15,314	70,606	-	-	28,582	114,502
Unavailable revenue - taxes	1,087,122	-	-	-	187,950	1,275,072
<b>Total deferred inflows of resources</b>	<u>1,102,436</u>	<u>70,606</u>	<u>-</u>	<u>-</u>	<u>216,532</u>	<u>1,389,574</u>
<b>Fund balances</b>						
Nonspendable						
Prepays	227,807	5,439	-	-	6,377	239,623
Assets held for resale	52,812	-	-	-	-	52,812
Restricted						
Streets	-	1,386,315	-	-	577,723	1,964,038
Cemetery care	-	-	-	-	342,915	342,915
Restricted contributions	-	-	-	-	13,955	13,955
Unassigned	171,530	-	-	-	-	171,530
<b>Total fund balances</b>	<u>452,149</u>	<u>1,391,754</u>	<u>-</u>	<u>-</u>	<u>940,970</u>	<u>2,784,873</u>
<b>Total liabilities deferred inflows and fund balances</b>	<u>\$ 2,629,775</u>	<u>\$ 1,628,821</u>	<u>\$ 3,743,461</u>	<u>\$ -</u>	<u>\$ 1,834,806</u>	<u>\$ 9,836,863</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, 2021**

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<b>Fund balances - total governmental funds</b>	<b>\$ 2,784,873</b>
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	239,408
Add - construction in progress	337,082
Add - capital assets (net of accumulated depreciation)	9,045,782
Certain assets are not due and receivable in the current period and therefore are reported as unavailable revenue in the funds.	
Add - unavailable revenue	114,502
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences	(240,242)
Deduct - total OPEB liability	(7,341,301)
Deduct - net pension liability	(14,167,080)
Add - deferred outflows related to benefit plans	2,463,032
Deduct - deferred inflows related to benefit plans	(411,780)
Deduct - long-term debt	(1,649,926)
Deduct - accrued interest on bonds	<u>(10,237)</u>
<b>Net position of governmental activities</b>	<b><u>\$ (8,835,887)</u></b>

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, 2021**

	<u>General</u>	<u>Major Streets</u>	<u>ARPA</u>	<u>Sherman Boulevard Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>						
Taxes						
Property	\$ 2,360,546	\$ -	\$ -	\$ -	\$ 373,667	\$ 2,734,213
Income	1,051,335	-	-	-	-	1,051,335
Intergovernmental revenues						
Federal	21,049	-	1,600,147	-	549,336	2,170,532
State	1,872,211	1,108,873	-	195,107	406,640	3,582,831
Local	-	-	-	-	133,591	133,591
Private grants	70,985	-	-	-	-	70,985
Licenses and permits	313,556	-	-	-	-	313,556
Charges for services	1,599,497	367	-	-	5,595	1,605,459
Fines	83,682	-	-	-	-	83,682
Interest earnings	682	-	290	-	1,515	2,487
Miscellaneous	263,762	-	-	-	-	263,762
<b>Total revenues</b>	<u>7,637,305</u>	<u>1,109,240</u>	<u>1,600,437</u>	<u>195,107</u>	<u>1,470,344</u>	<u>12,012,433</u>
<b>Expenditures</b>						
Current						
General government	1,906,355	-	1,222	-	-	1,907,577
Public safety	5,271,715	-	-	-	-	5,271,715
Public works and streets	976,508	781,787	-	195,107	647,037	2,600,439
Community development	19,058	-	-	-	701,759	720,817
Culture and recreation	50,749	-	-	-	-	50,749
Debt service						
Principal	228,409	-	-	-	-	228,409
Interest	44,893	-	-	-	-	44,893
<b>Total expenditures</b>	<u>8,497,687</u>	<u>781,787</u>	<u>1,222</u>	<u>195,107</u>	<u>1,348,796</u>	<u>10,824,599</u>
Revenues over (under) expenditures	<u>(860,382)</u>	<u>327,453</u>	<u>1,599,215</u>	<u>-</u>	<u>121,548</u>	<u>1,187,834</u>
Other financing sources (uses)						
Issuance of debt	222,703	-	-	-	-	222,703
Transfers in	1,975,215	-	-	-	-	1,975,215
Transfers out	-	-	(1,599,215)	-	-	(1,599,215)
Total other financing sources (uses)	<u>2,197,918</u>	<u>-</u>	<u>(1,599,215)</u>	<u>-</u>	<u>-</u>	<u>598,703</u>
<b>Net changes in fund balances</b>	<u>1,337,536</u>	<u>327,453</u>	<u>-</u>	<u>-</u>	<u>121,548</u>	<u>1,786,537</u>
<b>Fund balances, beginning of year</b>	<u>(885,387)</u>	<u>1,064,301</u>	<u>-</u>	<u>-</u>	<u>819,422</u>	<u>998,336</u>
<b>Fund balances, end of year</b>	<u>\$ 452,149</u>	<u>\$ 1,391,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 940,970</u>	<u>\$ 2,784,873</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, 2021

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<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 1,786,537</b>
Amounts reported for <i>governmental activities</i> 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	1,154,833
Add - contributed capital assets	207,423
Deduct - depreciation expense	(893,521)
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.	
Deduct - issuance of long-term debt	(222,703)
Add - payments on long-term debt	320,548
Some revenues reported in the statement of activities are not available within 60 days after year-end and therefore are not reported as revenues in the funds.	
Deduct - reduction in long-term receivables	7,108
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	(114,243)
Deduct - increase in total OPEB liability	(34,327)
Deduct - increase in net pension liability	(639,863)
Deduct - decrease in deferred outflows related to benefit plans	(204,697)
Deduct - increase in deferred inflows related to benefit plans	(349,995)
Add - decrease in accrued interest	(1,900)
<b>Change in net position of governmental activities</b>	<b><u>\$ 1,015,200</u></b>

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

**CITY OF MUSKEGON HEIGHTS**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION**

**DECEMBER 31, 2021**

	<b>Enterprise Funds</b>		
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and pooled investments	\$ 1,506,330	\$ 531,563	\$ 2,037,893
Accounts receivable	418,296	400,114	818,410
Inventory	-	30,717	30,717
Prepaid items	2,199	11,538	13,737
Due from other governments	-	17,864	17,864
<b>Total current assets</b>	<b>1,926,825</b>	<b>991,796</b>	<b>2,918,621</b>
Noncurrent assets			
Capital assets			
Land	2,246	37,766	40,012
Construction in progress	-	122,634	122,634
Infrastructure and plant	4,244,220	30,767,093	35,011,313
Less accumulated depreciation	(2,903,275)	(20,851,350)	(23,754,625)
<b>Net capital assets</b>	<b>1,343,191</b>	<b>10,076,143</b>	<b>11,419,334</b>
Restricted cash and pooled investments	-	285,000	285,000
Bond discount	-	63,129	63,129
<b>Total noncurrent assets</b>	<b>1,343,191</b>	<b>10,424,272</b>	<b>11,767,463</b>
<b>Total assets</b>	<b>3,270,016</b>	<b>11,416,068</b>	<b>14,686,084</b>
<b>Deferred outflows of resources</b>			
Pension and OPEB related	166,220	576,973	743,193
<b>Liabilities</b>			
Current liabilities			
Accounts payable	116,120	222,938	339,058
Accrued liabilities	11,969	64,607	76,576
Current portion of long-term debt	67,914	375,899	443,813
<b>Total current liabilities</b>	<b>196,003</b>	<b>663,444</b>	<b>859,447</b>
Long-term liabilities			
Total OPEB liability	263,773	1,278,623	1,542,396
Net pension liability	614,125	1,855,056	2,469,181
Long-term debt, net of current portion	646,359	3,248,385	3,894,744
<b>Total long-term liabilities</b>	<b>1,524,257</b>	<b>6,382,064</b>	<b>7,906,321</b>
<b>Total liabilities</b>	<b>1,720,260</b>	<b>7,045,508</b>	<b>8,765,768</b>
<b>Deferred inflows of resources</b>			
Pension and OPEB related	48,295	156,314	204,609
<b>Net position</b>			
Net investment in capital assets	645,691	6,465,514	7,111,205
Restricted for debt requirement	-	285,000	285,000
Unrestricted (deficit)	1,021,990	(1,959,295)	(937,305)
<b>Total net position</b>	<b>\$ 1,667,681</b>	<b>\$ 4,791,219</b>	<b>\$ 6,458,900</b>

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, 2021**

	<b>Enterprise Funds</b>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>Operating revenue</b>			
Charges for services	\$ 1,786,055	\$ 1,584,823	\$ 3,370,878
Charges for debt service and other	-	17,864	17,864
<b>Total operating revenue</b>	<u>1,786,055</u>	<u>1,602,687</u>	<u>3,388,742</u>
<b>Operating expense</b>			
Personnel services	145,465	421,724	567,189
Benefits	103,165	388,342	491,507
Contractual/professional services	705,068	101,180	806,248
Materials and supplies	13,725	69,344	83,069
Utilities	2,623	316,222	318,845
Repair and maintenance	1,663	5,770	7,433
Depreciation	72,149	891,788	963,937
Miscellaneous	18,812	66,307	85,119
<b>Total operating expense</b>	<u>1,062,670</u>	<u>2,260,677</u>	<u>3,323,347</u>
Operating income (loss)	<u>723,385</u>	<u>(657,990)</u>	<u>65,395</u>
Non-operating revenue (expense)			
Interest income	-	8,807	8,807
Interest expense	(24,990)	(169,755)	(194,745)
Total non-operating revenue (expense)	<u>(24,990)</u>	<u>(160,948)</u>	<u>(185,938)</u>
Income (loss) before transfers	698,395	(818,938)	(120,543)
Transfers			
Transfers out	<u>(126,000)</u>	<u>(250,000)</u>	<u>(376,000)</u>
Changes in net position	572,395	(1,068,938)	(496,543)
<b>Net position, beginning of year</b>	<u>1,095,286</u>	<u>5,860,157</u>	<u>6,955,443</u>
<b>Net position, end of year</b>	<u>\$ 1,667,681</u>	<u>\$ 4,791,219</u>	<u>\$ 6,458,900</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, 2021**

	<b>Enterprise Funds</b>		
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 1,823,481	\$ 1,655,175	\$ 3,478,656
Payments to employees	(240,638)	(789,061)	(1,029,699)
Payments to suppliers	(906,030)	(512,863)	(1,418,893)
<b>Net cash provided by (used in) operating activities</b>	<u>676,813</u>	<u>353,251</u>	<u>1,030,064</u>
<b>Cash flows from non-capital financing activities</b>			
Loans (to) from other funds	-	(2,111)	(2,111)
Transfers out	(126,000)	(250,000)	(376,000)
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(126,000)</u>	<u>(252,111)</u>	<u>(378,111)</u>
<b>Cash flows from capital and related financing activities</b>			
Interest paid	(24,565)	(154,824)	(179,389)
Principal paid on long-term debt	(50,000)	(310,000)	(360,000)
Acquisitions of capital assets	-	(90,361)	(90,361)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(74,565)</u>	<u>(555,185)</u>	<u>(629,750)</u>
<b>Cash flows from investing activities</b>			
Interest income	-	8,807	8,807
Net increase (decrease) in cash and pooled investments	476,248	(445,238)	31,010
<b>Cash and pooled investments, beginning of year</b>	<u>1,030,082</u>	<u>1,261,801</u>	<u>2,291,883</u>
<b>Cash and pooled investments, end of year</b>	<u>\$ 1,506,330</u>	<u>\$ 816,563</u>	<u>\$ 2,322,893</u>
<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 723,385	\$ (657,990)	\$ 65,395
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	72,149	891,788	963,937
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	37,426	52,488	89,914
Inventory	-	1,175	1,175
Deferred inflow	45,570	148,103	193,673
Prepays	352	326	678
Deferred outflow	(57,223)	(178,381)	(235,604)
Accounts payable	(164,491)	62,323	(102,168)
Due to other governments	-	(17,864)	(17,864)
Accrued liabilities	(235)	(7,520)	(7,755)
Accrued compensated absences	1,325	(3,295)	(1,970)
Accrued other post-employment benefits	944	4,861	5,805
Net pension liability	17,611	57,237	74,848
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 676,813</u>	<u>\$ 353,251</u>	<u>\$ 1,030,064</u>

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

# CITY OF MUSKEGON HEIGHTS

## FIDUCIARY FUNDS STATEMENT OF NET POSITION

DECEMBER 31, 2021

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	Private Purpose Trust Fund - John Hendrick Flower Fund	Custodial Funds
<b>Assets</b>		
Cash and pooled investments	\$ 2,876	\$ 648,600
<b>Total assets</b>	<u>\$ 2,876</u>	<u>\$ 648,600</u>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 372,909
Due to other governments	<u>-</u>	<u>275,691</u>
<b>Total liabilities</b>	<u>-</u>	<u>648,600</u>
<b>Net position</b>	<u>\$ 2,876</u>	<u>\$ -</u>

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

**CITY OF MUSKEGON HEIGHTS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>Private Purpose Trust Fund - John Hendrick Flower Fund</b>	<b>Custodial Funds</b>
<b>Additions</b>		
Property taxes collected for other governments	\$ -	\$ 3,363,734
Taxes and benefits collected for other entities	<u>-</u>	<u>1,300,394</u>
<b>Total additions</b>	<u>-</u>	<u>4,664,128</u>
<b>Deductions</b>		
Taxes to other governments	-	3,363,734
Taxes and benefit to other entities	<u>-</u>	<u>1,300,394</u>
<b>Total deductions</b>	<u>-</u>	<u>4,664,128</u>
Changes in net position	-	-
<b>Net position, beginning of year</b>	<u>2,876</u>	<u>-</u>
<b>Net position, end of year</b>	<u>\$ 2,876</u>	<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, 2021

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### ***Reporting Entity***

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

##### ***Discretely Presented Component Units***

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

##### ***Government-wide and Fund Financial Statements***

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

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

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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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. 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. 50% of the City's summer tax levy regardless of collection date is deferred at year end and recognized in the following fiscal year. Reimbursement-based grants, income taxes, fees, interest and other revenues use up to a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, reimbursement-based grants, income taxes, state revenue, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental fund:

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

The *Major Streets Fund* is used to account for the accumulation and expenditure of gas and weight taxes received from the State of Michigan that are restricted for major streets repair and maintenance.

The *ARPA Fund* is used to account for Coronavirus State and Local Recovery Funds (ARPA) funding receipts and disbursements that are restricted by grant requirements.

The *Sherman Boulevard Grant Fund* is used to account for the receipt and disbursement of grant proceeds for the improvement of Sherman Boulevard.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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The City reports the following major proprietary funds:

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

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

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 *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 *Custodial Funds* are used to account for payroll and the collection and disbursement of property taxes that are collected on behalf of outside governments and entities.

#### ***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, 2021

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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 made 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, the allowance for uncollectible receivable balances was approximately \$150,000 and \$225,000 for water and sewer funds, respectively.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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#### ***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 buildings 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	5-50
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/expense regardless of fund or activity.



# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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#### ***Compensated Absences***

Under contracts negotiated with employee groups, individual employees may have a vested right to receive payments for unused vacation, sick and comp time benefits under formulas and conditions specified in the contracts. Accumulated vacation, sick and comp 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 and OPEB liability that are discussed in Notes 7 and 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 also has items that qualify for reporting in this category related to the net pension and OPEB liability that are discussed in Notes 7 and 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, 2021

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#### ***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.

At year end Coronavirus State and Local Recovery Funds (ARPA) grant funding of \$3,742,239 and CDBG program income of \$23,127 was reported as unearned revenue. These balances will be recognized as revenue in future years as eligible expenditures 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, 2021

#### 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, 2021, 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>
<b>General fund</b>			
General government			
City Manager	\$ 216,605	\$ 220,148	\$ 3,543
Personnel	24,000	147,218	123,218
Assessor	89,978	93,094	3,116
City attorney	100,000	143,052	43,052
Finance	209,403	252,920	43,517
Treasurer	69,945	75,031	5,086
Other general government	261,777	370,031	108,254
Public safety			
Police	3,205,481	3,416,555	211,074
Special investigations	-	6,159	6,159
Public works			
Street lighting	180,000	218,835	38,835
Community development			
Brownfield redevelopment	-	2,413	2,413
<b>Sherman Blvd grant fund</b>			
Public Works	150,000	195,106	45,106
<b>Senior millage fund</b>			
Community development	132,237	152,423	20,186
<b>ARPA grant fund</b>			
General government/transfers out	-	1,600,437	1,600,437
<b>CDBG fund</b>			
Community development	526,173	549,336	23,163

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

#### 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>
<b>Cash and pooled investments</b>	<b>\$8,984,375</b>	<b>\$332,377</b>	<b>\$651,476</b>	<b>\$9,968,228</b>

Cash and pooled investments captions consist of the following at December 31, 2021:

Deposits and certificates of deposit	\$9,026,675
Investments	941,553
<b>Total</b>	<b>\$9,968,228</b>

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, \$8,407,166 of the City's bank balance of \$8,657,166 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>
Investments				
Jackson County MI, GO Pension bonds	12/1/31	\$113,979	Aa3	Moody
JP Morgan CD 1%	6/29/29	138,495	Unrated	
JP Morgan CD 1%	6/29/29	217,772	Unrated	
Funds				
Federated Trust for US Treasury Obligations	N/A	316,974	AAAm	S&P
Federated Government Obligations Fund	N/A	5,573	AAAm	S&P
Ishares Core US Aggregate Bond Fund	N/A	148,760	3 star	Morningstar
		<b>\$941,553</b>		

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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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).
- All City investments 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 investments the City's custodial credit risk exposure cannot be determined for investments funds because the invested funds do not consist of specifically identifiable securities. For non-fund investments the City is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular 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, 2021

#### 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:

	<b>General fund</b>	<b>Major street fund</b>	<b>Nonmajor governmental funds</b>
Unavailable property tax revenue	\$1,087,122	\$ -	\$187,950
Unavailable receivable	15,314	70,606	28,582
<b>Total</b>	<b>\$1,102,436</b>	<b>\$70,606</b>	<b>\$216,532</b>

#### 5. INTERFUND TRANSACTIONS

Interfund receivables and payables of individual funds at December 31, 2021 were as follows:

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

	<b>Payable fund</b>	
<b>Receivable fund</b>	<b>Nonmajor governmental Funds</b>	<b>Total</b>
Non-major governmental funds	\$234,635	\$234,635
<b>Total</b>	<b>\$234,635</b>	<b>\$234,635</b>

Transfers in and out for the year ended December 31, 2021 are as follows:

	<b>Transfer in</b>	
<b>Transfer out</b>	<b>General Fund</b>	<b>Total</b>
Enterprise funds		
Sewer	\$ 126,000	\$ 126,000
Water	250,000	250,000
Special revenue funds		
ARPA	1,599,215	1,599,215
<b>Total</b>	<b>\$1,975,215</b>	<b>\$1,975,215</b>

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, 2021

#### 6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2021</u>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 239,408	\$ -	\$ -	\$ 239,408
Construction in progress	-	337,082	-	337,082
Total capital assets, not being depreciated	<u>239,408</u>	<u>337,082</u>	<u>-</u>	<u>576,490</u>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	4,250,604	-	-	4,250,604
Equipment	1,889,430	127,346	-	2,016,776
Motor vehicles	2,641,630	223,914	-	2,865,544
Infrastructure	26,067,236	673,914	-	26,741,150
Total capital assets, being depreciated	<u>34,848,900</u>	<u>1,025,174</u>	<u>-</u>	<u>35,874,074</u>
Less accumulated depreciation for				
Buildings and improvements	2,459,173	159,099	-	2,618,272
Equipment	1,513,500	93,116	-	1,606,616
Motor vehicles	2,137,970	161,607	-	2,299,577
Infrastructure	19,824,128	479,699	-	20,303,827
Total accumulated depreciation	<u>25,934,771</u>	<u>893,521</u>	<u>-</u>	<u>26,828,292</u>
<b>Net capital assets, being depreciated</b>	<u>8,914,129</u>	<u>131,653</u>	<u>-</u>	<u>9,045,782</u>
<b>Governmental Activities capital assets, net</b>	<u><b>\$9,153,537</b></u>	<u><b>\$468,735</b></u>	<u><b>\$ -</b></u>	<u><b>\$9,622,272</b></u>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
Construction in progress	32,273	90,361	-	122,634
Total capital assets, not being depreciated	<u>72,285</u>	<u>90,361</u>	<u>-</u>	<u>162,646</u>
<b>Capital assets being depreciated</b>				
Buildings and improvements	213,699	-	-	213,699
Equipment	2,665,404	-	-	2,665,404
Plant	22,318,610	-	-	22,318,610
Infrastructure	9,813,600	-	-	9,813,600
Total capital assets, being depreciated	<u>35,011,313</u>	<u>-</u>	<u>-</u>	<u>35,011,313</u>
Less accumulated depreciation for				
Buildings and improvements	138,079	8,512	-	146,591
Equipment	1,847,763	114,955	-	1,962,718
Plant	13,049,536	731,525	-	13,781,061
Infrastructure	7,755,310	108,945	-	7,864,255
Total accumulated depreciation	<u>22,790,688</u>	<u>963,937</u>	<u>-</u>	<u>23,754,625</u>
<b>Net capital assets, being depreciated</b>	<u>12,220,625</u>	<u>(963,937)</u>	<u>-</u>	<u>11,256,688</u>
<b>Business-type Activities capital assets, net</b>	<u><b>\$12,292,910</b></u>	<u><b>\$(873,576)</b></u>	<u><b>\$ -</b></u>	<u><b>\$11,419,334</b></u>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance January 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2021</u>
<b>Downtown Development Authority (DDA)</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$294,635	\$ -	\$ -	\$294,635
CIP	82,000	-	82,000	-
Total capital assets, not being depreciated	376,635	-	82,000	294,635
<b>Capital assets being depreciated</b>				
Buildings and improvements	758,835	-	-	758,835
Infrastructure	88,387	82,000	-	170,387
Total capital assets, being depreciated	847,222	82,000	-	929,222
Less accumulated depreciation for				
Buildings and improvements	476,200	21,408	-	497,608
Infrastructure	44,193	8,519	-	52,712
Total accumulated depreciation	520,393	29,927	-	550,320
<b>Net capital assets, being depreciated</b>	326,829	52,073	-	378,902
<b>DDA capital assets, net</b>	<b>\$703,464</b>	<b>\$52,073</b>	<b>\$82,000</b>	<b>\$673,537</b>

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

<b>Governmental Activities</b>	
General government	\$122,449
Public safety	163,686
Public works and streets	561,944
Recreation	42,534
	\$893,521
<b>Total depreciation expense - governmental activities</b>	
<b>Business-type Activities</b>	
Sewer	\$ 72,149
Water	891,788
	\$963,937
<b>Total depreciation expense - business-type activities</b>	

## 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](http://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, 2021

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2020):

Inactive employees or beneficiaries currently receiving benefits	108
Inactive employees entitled but not yet receiving benefits	61
Active plan members	49
<b>Total</b>	<b>218</b>

**Contributions**

The City is required to contribute at an actuarially determined rate, which for the current year was from 21.15% to 71.40% of annual covered payroll depending on position and classification. For divisions closed to new employees the employer has monthly employer contributions of \$126,764. 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, 2020, 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, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation – 2.5%
- Salary increases – 3.00% in the long term
- Investment rate of return - 7.35 percent; net of investment expense including inflation
- Mortality rates – based on the MP-2019 Group Annuity Mortality Table of a 50% male and 50 % female blend

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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	60.0%	5.25%
Global Fixed Income	20.0%	1.25%
Private investments	20.0%	7.25%

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

**Discount Rate**

The discount rate used to measure the total pension liability was 7.6 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the current actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a)-(b)</b>
Balance at January 1, 2020	\$36,980,832	\$21,059,282	\$15,921,550
Changes for the year:			
Service cost	358,468	-	358,468
Interest	2,724,310	-	2,724,310
Change in benefits	-	-	-
Differences between expected and actual experience	240,288	-	240,288
Change in assumptions	1,245,994	-	1,245,994
Contributions: employer	-	1,210,670	(1,210,670)
Contributions: employee	-	177,174	(177,174)
Net investment income	-	2,507,851	(2,507,851)
Benefit payments, including refunds	(2,627,766)	(2,627,766)	-
Administrative expense	-	(41,098)	41,098
Other changes	(2)	(250)	248
Net changes	1,941,292	1,226,581	714,711
<b>Balance at December 31, 2020</b>	<b>\$38,922,124</b>	<b>\$22,285,863</b>	<b>\$16,636,261</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

#### 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 7.6%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.6%) or higher (8.6%) than the current rate.

	<b>1% Decrease</b>	<b>Current Discount rate</b>	<b>1% Increase</b>
Total pension liability	\$43,179,657	\$38,922,124	\$35,356,032
Fiduciary net position	22,285,863	22,285,863	22,285,863
<b>Net pension liability</b>	<b>\$20,893,794</b>	<b>\$16,636,261</b>	<b>\$13,070,169</b>

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

For the year ended December 31, 2021 the employer recognized pension expense of \$2,348,485. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ 120,144	\$ -
Differences in assumptions	622,997	-
Excess(Deficit) Investment Returns	-	(616,389)
Contributions subsequent to the Measurement date*	1,346,154	-
<b>Total</b>	<b>\$2,089,295</b>	<b>\$(616,389)</b>

\* 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 December 31, 2022.

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

2022	\$627,013
2023	98,163
2024	(407,220)
2025	(191,204)
2026	-
Thereafter	-
<b>Total</b>	<b>\$126,752</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

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#### 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 8% of each participant's base salary to the plan. Employees are required to contribute a minimum of 3.5% of base pay to the plan. Participating employees are 100% vested in the member's accumulated balance after one year. Current year contributions by the City and employees were \$31,825 and \$32,296 respectively. 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.

#### 8. POST-EMPLOYMENT BENEFITS

##### *Plan Description*

The City administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

##### *Benefits Provided*

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.

Membership of the Retiree Health Plan consisted of the following at the date of the latest actuarial valuation (December 31, 2020):

Retirees and beneficiaries	44
Inactive employees	0
Active plan members	<u>69</u>
<b>Total</b>	<b><u>113</u></b>

##### *Contributions*

The contribution requirements of Plan members and the City are established and may be amended by the City. The actuarially determined contributions are based on the actuarial valuation of the plan. The actual contributions to the plan are based on required pay-as-you-go contributions. Active participants do not make contributions to pre-fund the Plan. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

##### *Net OPEB Liability*

The employer's net OPEB liability was measured as of December 31, 2021, rolling forward the total OPEB liability used to calculate the net OPEB liability that was determined by an actuarial valuation as of December 31, 2020.

# CITY OF MUSKEGON HEIGHTS

## *NOTES TO THE FINANCIAL STATEMENTS*

### *FOR THE YEAR ENDED DECEMBER 31, 2021*

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: N/A; plan is not pre-funded

Salary Increases: 3.0%

Investment rate of return: N/A; plan is not pre-funded

Discount rate: 1.93% (3.00% 2018)

Healthcare cost trend rates Pre 65: 8.25% initially going down 0.25% per year, reaching a long-term rate of 4.5%

Healthcare cost trend rates Medicare eligible: 6.5% initially going down 0.25% per year, reaching a long-term rate of 4.5%

Mortality rates: 2010 Public general and public safety employees and healthy retirees, headcount weighted, MP-2020

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

Discount rate. The discount rate used to measure the total OPEB liability was 1.93%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members, therefore, benefits payments are discounted at a discount rate reflecting a 20-year AA/Aa tax exempt municipal bond yield.

#### Changes in the Net OPEB Liability

	<b>Total OPEB Liability</b>
	<b>(a)</b>
Balance at December 31, 2020	\$8,843,565
Changes for the Year:	
Service cost	236,263
Interest	169,433
Change in benefits	-
Differences between expected and actual experience	-
Change in assumptions	-
Contributions: employer	(365,564)
Contributions: employee	-
Net investment income	-
Benefit payments, including refunds	-
Administrative expense	-
Other changes	-
Net changes	40,132
<b>Balance at December 31, 2021</b>	<b>\$8,883,697</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

**Sensitivity of the Net OPEB Liability to changes in the discount rate.**

The following presents the net OPEB liability of the employer, calculated using the current discount rate, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate.

	1% Decrease	Current Discount rate	1% Increase
<b>Total OPEB liability</b>	<b>\$10,283,894</b>	<b>\$8,883,697</b>	<b>\$7,758,028</b>

**Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates.**

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a rate that is 1 percentage point lower or 1% higher than the current rate.

	1% Decrease	Current Healthcare rate	1% Increase
<b>Total OPEB liability</b>	<b>\$7,663,695</b>	<b>\$8,883,697</b>	<b>\$10,470,344</b>

For the year ended December 31, 2021 the employer recognized OPEB expense of \$409,696.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ 265,656	\$ -
Differences in assumptions	851,274	-
Excess (Deficit) investment returns	-	-
<b>Total</b>	<b>\$1,116,930</b>	<b>\$ -</b>

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

2022	\$ 170,005
2023	170,005
2024	170,005
2025	170,005
2026	170,005
Thereafter	266,905
<b>Total</b>	<b>\$1,116,930</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

#### 9. LONG-TERM DEBT

The following is a summary of the City debt transactions for the year ended December 31, 2021:

	<u>Balance January 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2021</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
2013 Capital Improvement Bonds, due in annual installments of \$85,000 to \$145,000 through November 2028; plus interest at 3.35%	\$1,045,000	\$ -	\$115,000	\$ 930,000	\$120,000
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	238,507	-	113,408	125,099	125,099
2007 Brownfield Redevelopment Grant Project due in monthly installments of \$9,297 including interest at 2% through October 20, 2026	52,988	-	-	52,988	17,134
Ford Police Interceptor installment note due in annual installments of \$9,550 including interest at 6.45% through March 13, 2021	8,972	-	8,972	-	-
Radio installment note due in annual installments of \$39,026 including interest at 3.73% through January 15, 2021	37,622	-	37,622	-	-
Police Interceptor installment note due in annual installments of \$42,167 to \$46,458 plus interest at 3.283% through May 22, 2025	-	222,703	45,546	177,157	42,167
	1,383,089	222,703	320,548	1,285,244	304,400
Accrued employee benefits	490,680	357,101	242,857	604,924	374,890
<b>Total Governmental Activities</b>	<b><u>\$1,873,769</u></b>	<b><u>\$579,804</u></b>	<b><u>\$563,405</u></b>	<b><u>\$1,890,168</u></b>	<b><u>\$679,290</u></b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Balance</u> <u>January 1,</u> <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2021</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
<b>Business-type Activities</b>					
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%	\$1,265,000	\$ -	\$105,000	\$1,160,000	\$110,000
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%	1,845,000	-	155,000	1,690,000	160,000
2017 Capital Improvement Bonds due in annual installments of \$95,000 to \$155,000 through October 2032; plus interest at 3.4%	1,495,000	-	100,000	1,395,000	105,000
	4,605,000	-	360,000	4,245,000	375,000
Accrued employee benefits	95,527	72,435	74,405	93,557	68,813
<b>Total Business-type Activities</b>	<u>\$4,700,527</u>	<u>\$72,435</u>	<u>\$434,405</u>	<u>\$4,338,557</u>	<u>\$443,813</u>

#### Pledged Revenues

The City has pledged all future revenues of the water supply system (a subfund of the water fund), 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 approximately \$3,500,918. For the current year, principal and interest paid was approximately \$392,226 and net revenues available for principal and interest payments was less than the covenant requirement (net revenue of 110% of the principal and interest coming due).

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 forgoing, 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. The City budget for fiscal year 2021 did not meet the requirements of the above covenant, nor were other relevant bond covenants adhered to.



# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits and the capital leases) as of December 31, 2021 are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 304,400	\$ 42,109	\$ 375,000	\$169,256
2023	177,311	32,106	390,000	154,616
2024	183,872	26,356	400,000	139,256
2025	190,483	20,390	420,000	123,336
2026	144,178	14,207	435,000	106,776
2027-2031	285,000	14,404	2,070,000	255,688
2032	-	-	155,000	5,270
<b>Total</b>	<b>\$1,285,244</b>	<b>\$149,572</b>	<b>\$4,245,000</b>	<b>\$954,198</b>

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. LEASES

The City conducts a portion of its operations with leased equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2021 amounted to \$58,360.

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2021:

<u>Year</u>	<u>Operating Leases</u>
2022	\$ 58,040
2023	38,859
2024	36,965
2025	36,965
Total minimum payments due	<u>\$170,829</u>

# **CITY OF MUSKEGON HEIGHTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2021**

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#### **12. CONTINGENCIES AND SUBSEQUENT EVENTS**

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 may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the City.

#### **13. 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 share of property tax abatements under this program were approximately \$13,551 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's share of property tax abatements under this program were approximately \$684,312 for the year.

#### **14. RECLASSIFICATION**

The City's water enterprise fund includes the water and water supply sub funds. Charges between these funds are eliminated for financial reporting purposes.

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## **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, 2021

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes				
Property	\$ 2,438,000	\$ 2,438,000	\$ 2,360,546	\$ (77,454)
Income	1,200,000	1,200,000	1,051,335	(148,665)
Intergovernmental revenues				
Federal	40,000	40,000	21,049	(18,951)
State	1,752,565	1,752,565	1,872,211	119,646
Private grants	40,000	40,000	70,985	30,985
Licenses and permits	298,130	298,130	313,556	15,426
Charges for services	1,718,472	1,718,472	1,599,497	(118,975)
Fines	63,000	63,000	83,682	20,682
Interest earnings	1,100	1,100	682	(418)
Miscellaneous	406,000	406,000	263,762	(142,238)
<b>Total revenues</b>	<u>7,957,267</u>	<u>7,957,267</u>	<u>7,637,305</u>	<u>(319,962)</u>
<b>Expenditures</b>				
Current				
General government	1,668,343	1,668,343	1,906,355	(238,012)
Public safety	5,189,349	5,189,349	5,271,715	(82,366)
Public works	1,064,594	1,064,594	976,508	88,086
Community development	28,900	28,900	19,058	9,842
Culture and recreation	90,527	90,527	50,749	39,778
Debt service				
Principal	236,912	236,912	228,409	8,503
Interest	45,793	45,793	44,893	900
<b>Total expenditures</b>	<u>8,324,418</u>	<u>8,324,418</u>	<u>8,497,687</u>	<u>(173,269)</u>
Revenues over (under) expenditures	<u>(367,151)</u>	<u>(367,151)</u>	<u>(860,382)</u>	<u>(493,231)</u>
Other financing sources (uses)				
Issuance of debt	-	-	222,703	222,703
Transfers in	376,000	376,000	1,975,215	1,599,215
Total other financing sources (uses)	<u>376,000</u>	<u>376,000</u>	<u>2,197,918</u>	<u>1,821,918</u>
<b>Net changes in fund balance</b>	8,849	8,849	1,337,536	1,328,687
<b>Fund balance, beginning of year</b>	<u>(885,387)</u>	<u>(885,387)</u>	<u>(885,387)</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ (876,538)</u>	<u>\$ (876,538)</u>	<u>\$ 452,149</u>	<u>\$ 1,328,687</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, 2021**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 1,022,000	\$ 1,022,000	\$ 1,108,873	\$ 86,873
Charges for services	-	-	367	367
<b>Total revenues</b>	1,022,000	1,022,000	1,109,240	87,240
<b>Expenditures</b>				
Current				
Public works	946,563	946,563	781,787	164,776
Revenues over (under) expenditures	75,437	75,437	327,453	252,016
Other financing sources (uses)				
Transfers out	(200,000)	(200,000)	-	200,000
<b>Net changes in fund balance</b>	(124,563)	(124,563)	327,453	452,016
<b>Fund balance, beginning of year</b>	1,064,301	1,064,301	1,064,301	-
<b>Fund balance, end of year</b>	\$ 939,738	\$ 939,738	\$ 1,391,754	\$ 452,016

**CITY OF MUSKEGON HEIGHTS**

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

**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 1,600,147	\$ 1,600,147
Interest earnings	-	-	290	290
<b>Total revenues</b>	-	-	1,600,437	1,600,437
<b>Expenditures</b>				
Current				
General government	-	-	1,222	(1,222)
<b>Revenues over (under) expenditures</b>	-	-	1,599,215	-
Other financing sources (uses)				
Transfers out	-	-	(1,599,215)	(1,599,215)
<b>Net changes in fund balance</b>	-	-	-	-
<b>Fund balance, beginning of year</b>	-	-	-	-
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF MUSKEGON HEIGHTS**

**SHERMAN BOULEVARD GRANT FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 150,000	\$ 150,000	\$ 195,107	\$ 45,107
<b>Expenditures</b>				
Current				
Public works	<u>150,000</u>	<u>150,000</u>	<u>195,107</u>	<u>(45,107)</u>
<b>Net changes in fund balance</b>	-	-	-	-
<b>Fund balance, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2021**

	2014	2015	2016	2017	2018	2019	2020
<b>Total pension liability</b>							
Service cost	\$ 387,556	\$ 379,304	\$ 353,936	\$ 368,532	\$ 371,049	\$ 416,134	\$ 358,468
Interest	2,482,950	2,529,504	2,627,075	2,690,320	2,699,646	2,745,215	2,724,310
Difference between expected and actual experience	-	(103,857)	308,151	(287,968)	159,082	(145,443)	240,288
Changes in assumptions	-	1,773,233	-	-	-	1,173,017	1,245,994
Benefit payments including employee refunds	(2,353,931)	(2,339,795)	(2,435,612)	(2,576,195)	(2,734,956)	(2,630,440)	(2,627,766)
Other	44,769	-	-	-	-	1	(2)
<b>Net change in total pension liability</b>	561,344	2,238,389	853,550	194,689	494,821	1,558,484	1,941,292
<b>Total pension liability, beginning of year</b>	31,079,555	31,640,899	33,879,288	34,732,838	34,927,527	35,422,348	36,980,832
<b>Total pension liability, ending of year</b>	<u>\$ 31,640,899</u>	<u>\$ 33,879,288</u>	<u>\$ 34,732,838</u>	<u>\$ 34,927,527</u>	<u>\$ 35,422,348</u>	<u>\$ 36,980,832</u>	<u>\$ 38,922,124</u>
<b>Plan Fiduciary Net Position</b>							
Contributions-employer	\$ 832,783	\$ 858,868	\$ 798,433	\$ 816,214	\$ 985,592	\$ 1,148,027	\$ 1,210,670
Contributions-employee	196,109	175,584	170,796	183,362	184,523	188,731	177,174
Net investment income	1,368,217	(313,419)	2,233,753	2,697,214	(814,451)	2,609,601	2,507,851
Benefit payments including employee refunds	(2,353,931)	(2,339,795)	(2,435,612)	(2,576,195)	(2,734,956)	(2,630,440)	(2,627,766)
Administrative expense	(49,936)	(46,971)	(44,218)	(42,841)	(41,742)	(44,912)	(41,348)
<b>Net change in plan fiduciary net position</b>	(6,758)	(1,665,733)	723,152	1,077,754	(2,421,034)	1,271,007	1,226,581
<b>Plan fiduciary net position, beginning of year</b>	22,080,894	22,074,136	20,408,403	21,131,555	22,209,309	19,788,275	21,059,282
<b>Plan fiduciary net position, ending of year</b>	<u>\$ 22,074,136</u>	<u>\$ 20,408,403</u>	<u>\$ 21,131,555</u>	<u>\$ 22,209,309</u>	<u>\$ 19,788,275</u>	<u>\$ 21,059,282</u>	<u>\$ 22,285,863</u>
<b>Employer net pension liability</b>	<u>\$ 9,566,763</u>	<u>\$ 13,470,885</u>	<u>\$ 13,601,283</u>	<u>\$ 12,718,218</u>	<u>\$ 15,634,073</u>	<u>\$ 15,921,550</u>	<u>\$ 16,636,261</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	70%	60%	61%	64%	56%	57%	57%
<b>Covered employee payroll</b>	\$ 2,975,300	\$ 2,886,460	\$ 2,711,422	\$ 2,807,861	\$ 2,851,603	\$ 3,108,860	\$ 2,657,332
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	322%	467%	502%	453%	548%	512%	626%

**Notes to schedule:**

The schedule is being accumulated prospectively until 10 years of information is presented

**CITY OF MUSKEGON HEIGHTS**  
**DEFINED BENEFIT PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

Fiscal Year end	Actuarially determined contributions	Contributions in relation to the actuarially determined contributions	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
12/31/2015	\$ 858,868	\$ 858,868	\$ -	\$ 2,866,460	30%
12/31/2016	808,391	808,391	-	2,711,422	30%
12/31/2017	816,214	816,214	-	2,807,861	29%
12/31/2018	985,592	985,592	-	2,851,603	35%
12/31/2019	1,148,027	1,148,027	-	3,108,860	37%
12/31/2020	1,210,670	1,210,670	-	2,670,968	45%
12/31/2021	1,346,154	1,346,154	-	not available	

**Notes to schedule**

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 to 19 years depending on group (30 years before 2018)
Asset valuation method	5 year smoothing (equal to market value of asset before 2018)
Inflation	2.50%
Salary increases	3.75 plus merit/inflation 0-11% based on age (3% before 2018)
Investment rate of return	7.35% (7.75% before 2019)
Mortality	50% female/ 50% male RP-2014 mortality table (RP-2000 Mortality table adjusted with Scale AA with pre-retirement rates adjusted for mortality improvement before 2018)

The schedule is being accumulated prospectively until 10 years of information is presented

# CITY OF MUSKEGON HEIGHTS

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

**FOR THE YEAR ENDED DECEMBER 31, 2021**

	2018	2019	2020	2021
<b>Total OPEB liability</b>				
Service cost	\$ 227,531	\$ 244,397	\$ 236,263	\$ 236,263
Interest	246,486	207,060	211,520	169,433
Difference between expected and actual experience	-	-	346,526	-
Changes in assumptions	-	-	1,413,453	-
Benefit payments including employee refunds	(345,000)	(476,549)	(357,186)	(365,564)
Other	-	-	-	-
<b>Net change in total OPEB liability</b>	129,017	(25,092)	1,850,576	40,132
<b>Total OPEB liability, beginning of year</b>	6,889,064	7,018,081	6,992,989	8,843,565
<b>Total OPEB liability, ending of year</b>	<u>\$ 7,018,081</u>	<u>\$ 6,992,989</u>	<u>\$ 8,843,565</u>	<u>\$ 8,883,697</u>
<b>Plan Fiduciary Net Position</b>				
Contributions-employer	\$ 345,000	\$ 376,549	\$ 357,186	\$ 365,564
Contributions-employee	-	-	-	-
Net investment income	-	-	-	-
Benefit payments including employee refunds	(345,000)	(376,549)	(357,186)	(365,564)
Administrative expense	-	-	-	-
<b>Net change in plan fiduciary net position</b>	-	-	-	-
<b>Plan fiduciary net position, beginning of year</b>	-	-	-	-
<b>Plan fiduciary net position, ending of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Employer net OPEB liability</b>	<u>\$ 7,018,081</u>	<u>\$ 6,992,989</u>	<u>\$ 8,843,565</u>	<u>\$ 8,883,697</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0%	0%	0%	0%
<b>Covered employee payroll</b>	\$ 2,703,428	\$ 2,703,428	\$ 3,895,633	\$ 3,895,633
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	260%	259%	227%	228%

**Notes to schedule:**

The schedule is being accumulated prospectively until 10 years of information is presented

# CITY OF MUSKEGON HEIGHTS

## **DEFINED BENEFIT OPEB PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

Fiscal Year end	Actuarially determined contributions	Contributions in relation to the actuarially determined contributions	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
12/31/2018	\$ 478,502	\$ 345,000	\$ 133,502	\$ 2,703,428	13%
12/31/2019	499,984	476,549	23,435	2,703,428	18%
12/31/2020	484,129	357,186	126,943	3,895,633	9%
12/31/2021	484,129	365,564	118,565	3,895,633	9%

**Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	N/A; plan is not funded
Inflation	N/A; plan is not funded
Salary increases	3.50%
Investment rate of return	N/A; plan is not funded
Discount rate	1.93% (3.00% 2019-2018)
Retirement age	Varies depending on plan adoption
Mortality	2010 Public general and public safety employees and healthy retirees, headcount weighted, MP-2020

The schedule is being accumulated prospectively until 10 years of information is presented

**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, 2021**

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
General government				
City council	\$ 40,824	\$ 40,824	\$ 40,768	\$ 56
Mayor	7,543	7,543	5,848	1,695
City manager	216,605	216,605	220,148	(3,543)
Personnel	24,000	24,000	147,218	(123,218)
Elections	14,900	14,900	7,309	7,591
Income tax	84,384	84,384	84,157	227
Assessor	89,978	89,978	93,094	(3,116)
City attorney	100,000	100,000	143,052	(43,052)
City Clerk	124,336	124,336	121,196	3,140
Finance	209,403	209,403	252,920	(43,517)
Treasurer	69,945	69,945	75,031	(5,086)
Data processing	52,500	52,500	20,533	31,967
Buildings and grounds	201,362	201,362	167,049	34,313
Motor pool	25,000	25,000	20,783	4,217
Cemetery	110,786	110,786	104,961	5,825
DTE test and tune program	35,000	35,000	32,257	2,743
Other general government	261,777	261,777	370,031	(108,254)
	1,668,343	1,668,343	1,906,355	(238,012)
Public safety				
Police	3,205,481	3,205,481	3,416,555	(211,074)
Special investigations	-	-	6,159	(6,159)
Fire	1,585,915	1,585,915	1,543,002	42,913
Inspections	397,953	397,953	305,999	91,954
	5,189,349	5,189,349	5,271,715	(82,366)
Public works				
Public works	205,200	205,200	91,210	113,990
Street lighting	180,000	180,000	218,835	(38,835)
Refuse collection	679,394	679,394	666,463	12,931
	1,064,594	1,064,594	976,508	88,086
Community development				
Farmer's market	12,900	12,900	5,258	7,642
Brownfield redevelopment	-	-	2,413	(2,413)
Planning	16,000	16,000	11,387	4,613
	28,900	28,900	19,058	9,842
Culture and recreation				
Parks	69,827	69,827	40,035	29,792
Library	17,800	17,800	9,862	7,938
Mona Lake boat launch	2,900	2,900	852	2,048
	90,527	90,527	50,749	39,778
Debt service				
Principal	236,912	236,912	228,409	8,503
Interest and fiscal charges	45,793	45,793	44,893	900
	282,705	282,705	273,302	9,403
<b>Total expenditures</b>	\$ 8,324,418	\$ 8,324,418	\$ 8,497,687	\$ (173,269)

**CITY OF MUSKEGON HEIGHTS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**DECEMBER 31, 2021**

	<u>Special Revenue</u>			
	<u>Local Streets</u>	<u>Municipal Streets</u>	<u>Community Development Block Grant</u>	<u>MSHDA</u>
<b>Assets</b>				
Cash and pooled investments	\$ -	\$ 641,227	\$ -	\$ 1,960
Receivables				
Accounts	-	-	-	-
Property taxes	-	93,095	-	-
Due from other funds	-	234,635	-	-
Due from other governments	94,829	-	323,222	-
Prepaid	4,178	-	2,199	-
<b>Total assets</b>	<u>\$ 99,007</u>	<u>\$ 968,957</u>	<u>\$ 325,421</u>	<u>\$ 1,960</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 13,642	\$ 249,804	\$ 65,558	\$ -
Accrued liabilities	5,965	-	4,921	-
Due to other funds	2,820	-	231,815	-
Unearned revenue	-	-	23,127	-
<b>Total liabilities</b>	<u>22,427</u>	<u>249,804</u>	<u>325,421</u>	<u>-</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue - long-term receivables	25,882	-	-	-
Unavailable revenue - taxes	-	187,950	-	-
	<u>25,882</u>	<u>187,950</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>				
Nonspendable				
Prepays	4,178	-	2,199	-
Restricted				
Streets	46,520	531,203	-	-
Cemetery care	-	-	-	-
Restricted contributions	-	-	(2,199)	1,960
<b>Total fund balances</b>	<u>50,698</u>	<u>531,203</u>	<u>-</u>	<u>1,960</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 99,007</u>	<u>\$ 968,957</u>	<u>\$ 325,421</u>	<u>\$ 1,960</u>

<u>Senior Millage</u>	<u>Cemetery Perpetual Care</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 16,154	\$ 342,915	\$ 77,692	\$ 1,079,948
-	2,700	-	2,700
-	-	-	93,095
-	-	-	234,635
-	-	-	418,051
-	-	-	6,377
<u>\$ 16,154</u>	<u>\$ 345,615</u>	<u>\$ 77,692</u>	<u>\$ 1,834,806</u>
\$ 1,960	\$ -	\$ 77,692	\$ 408,656
-	-	-	10,886
-	-	-	234,635
-	-	-	23,127
<u>1,960</u>	<u>-</u>	<u>77,692</u>	<u>677,304</u>
-	2,700	-	28,582
-	-	-	187,950
-	2,700	-	216,532
-	-	-	6,377
-	-	-	577,723
-	342,915	-	342,915
<u>14,194</u>	<u>-</u>	<u>-</u>	<u>13,955</u>
<u>14,194</u>	<u>342,915</u>	<u>-</u>	<u>940,970</u>
<u>\$ 16,154</u>	<u>\$ 345,615</u>	<u>\$ 77,692</u>	<u>\$ 1,834,806</u>



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

**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Special Revenue			
	Local Streets	Municipal Streets	Community Development Block Grant	MSHDA
<b>Revenues</b>				
Property taxes	\$ -	\$ 373,667	\$ -	\$ -
Intergovernmental revenues				
Federal	-	-	549,336	-
State	406,640	-	-	-
Local	-	-	-	-
Charges for services	-	-	-	-
Interest earnings	-	-	-	-
<b>Total revenues</b>	<u>406,640</u>	<u>373,667</u>	<u>549,336</u>	<u>-</u>
<b>Expenditures</b>				
Current				
Public works and streets	355,943	291,094	-	-
Community development	-	-	549,336	-
<b>Total expenditures</b>	<u>355,943</u>	<u>291,094</u>	<u>549,336</u>	<u>-</u>
Net changes in fund balances	50,697	82,573	-	-
<b>Fund balances, beginning of year</b>	<u>1</u>	<u>448,630</u>	<u>-</u>	<u>1,960</u>
<b>Fund balances, end of year</b>	<u>\$ 50,698</u>	<u>\$ 531,203</u>	<u>\$ -</u>	<u>\$ 1,960</u>

<u>Senior Millage</u>	<u>Cemetery Perpetual Care</u>	<u>Capital Projects</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 373,667
-	-	-	549,336
-	-	-	406,640
133,591	-	-	133,591
-	5,595	-	5,595
-	1,515	-	1,515
<u>133,591</u>	<u>7,110</u>	<u>-</u>	<u>1,470,344</u>
-	-	-	647,037
<u>152,423</u>	<u>-</u>	<u>-</u>	<u>701,759</u>
<u>152,423</u>	<u>-</u>	<u>-</u>	<u>1,348,796</u>
(18,832)	7,110	-	121,548
<u>33,026</u>	<u>335,805</u>	<u>-</u>	<u>819,422</u>
<u>\$ 14,194</u>	<u>\$ 342,915</u>	<u>\$ -</u>	<u>\$ 940,970</u>

**CITY OF MUSKEGON HEIGHTS**  
**CUSTODIAL FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**DECEMBER 31, 2021**

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	<b>Tax</b>	<b>Payroll</b>	
	<b><u>Collection</u></b>	<b><u>Taxes and</u></b>	<b><u>Total</u></b>
		<b><u>Benefits</u></b>	
<b>Assets</b>			
Cash and pooled investments	\$ 559,765	\$ 88,835	\$ 648,600
<b>Total assets</b>	<u>\$ 559,765</u>	<u>\$ 88,835</u>	<u>\$ 648,600</u>
 <b>Liabilities</b>			
Accounts payable	\$ 284,483	\$ 88,426	\$ 372,909
Due to other governments	<u>275,282</u>	<u>409</u>	<u>275,691</u>
<b>Total liabilities</b>	<u>559,765</u>	<u>88,835</u>	<u>648,600</u>
<b>Net position</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MUSKEGON HEIGHTS**  
**CUSTODIAL FUNDS**  
**COMBINING STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Tax Collection</u>	<u>Payroll Taxes and Benefits</u>	<u>Total</u>
<b>Additions</b>			
Property taxes collected for other governments	\$ 3,363,734	\$ -	\$ 3,363,734
Taxes and benefits collected for other entities	<u>-</u>	<u>1,300,394</u>	<u>1,300,394</u>
<b>Total additions</b>	<u>3,363,734</u>	<u>1,300,394</u>	<u>4,664,128</u>
<b>Deductions</b>			
Taxes to other governments	3,363,734	-	3,363,734
Taxes and benefits due to other entities	<u>-</u>	<u>1,300,394</u>	<u>1,300,394</u>
<b>Total deductions</b>	<u>3,363,734</u>	<u>1,300,394</u>	<u>4,664,128</u>
Changes in net position	-	-	-
<b>Net position, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net position, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# CITY OF MUSKEGON HEIGHTS

## DOWNTOWN DEVELOPMENT AUTHORITY BALANCE SHEET/STATEMENT OF NET POSITION

DECEMBER 31, 2021

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash and pooled investments	\$ 332,377	\$ -	\$ 332,377
Property taxes receivable	39,580	-	39,580
Capital assets			
Land	-	294,635	294,635
Buildings	-	929,222	929,222
Accumulated depreciation	-	(550,320)	(550,320)
	\$ 371,957	673,537	1,045,494
<b>Total assets</b>			
 <b>Liabilities, deferred inflows of resources and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 430	-	430
Due to other governments	195,551	-	195,551
	195,981	-	195,981
<b>Total liabilities</b>			
 <b>Deferred inflows of resources</b>			
Unavailable revenue - taxes	19,790	-	19,790
	156,186		
<b>Fund balances</b>			
Unassigned	156,186		
	\$ 371,957		
<b>Total liabilities, deferred inflows of resources and fund balances</b>			
 <b>Net position</b>			
Net investment in capital assets			673,537
Unrestricted			156,186
			\$ 829,723
<b>Total net position</b>			

**CITY OF MUSKEGON HEIGHTS**

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

**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Revenues</b>			
Property taxes	\$ 28,716	\$ -	\$ 28,716
Charges	72,158	-	72,158
Interest earnings	<u>49</u>	<u>-</u>	<u>49</u>
	100,923	-	100,923
<b>Expenditures</b>			
Current			
General government	<u>28,343</u>	<u>29,927</u>	<u>58,270</u>
Revenues over (under) expenditures	<u>72,580</u>	<u>(29,927)</u>	<u>42,653</u>
Net changes in fund balances	72,580	(72,580)	
Change in net position		42,653	42,653
<b>Fund balances/net position, beginning of year</b>	<u>83,606</u>	<u>703,464</u>	<u>787,070</u>
<b>Fund balances/net position, end of year</b>	<u>\$ 156,186</u>	<u>\$ 673,537</u>	<u>\$ 829,723</u>

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## **SINGLE AUDIT SECTION**





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

July 25, 2022

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 25, 2022.

#### **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.

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

Our consideration of internal control was for the limited purpose described in the 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Muskegon Heights, Michigan's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Muskegon Heights, Michigan's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

We also noted certain other matters that we reported to management of the City in a separate letter dated July 25, 2022.

### **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.

*Ordedald Haefner LLC*



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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

July 25, 2022

To the City Council  
City of Muskegon Heights, Michigan

#### **Report on Compliance for Each Major Federal Program**

##### ***Opinion on Each Major Federal Program***

We have audited the City of Muskegon Heights, Michigan's, (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

##### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

##### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City's federal programs.

##### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from

fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on City's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-004 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on City of X, State Y's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The city's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Ordenold Haefner LLC*

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**CITY OF MUSKEGON HEIGHTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Pass- through Grantor's Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grant (CDBG)	14.218	B-19-MC-26-0027	\$ 160,098
Community Development Block Grant (CDBG)	14.218	B-20-MC-26-0027	235,391
Community Development Block Grant (CDBG)	14.218	B-21-MC-26-0027	<u>153,847</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>549,336</u>
<b>U.S. Department of Justice</b>			
Passed through City of Muskegon Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	17,313
Passed through County of Ottawa High Intensity Drug Tracking Areas (HIDTA)	95.001	N/A	<u>3,736</u>
<b>Total U.S. Department of Justice</b>			<u>21,049</u>
<b>U.S. Department of Treasury</b>			
Coronavirus State and Local Recovery Funds (ARPA)	21.027		<u>1,600,147</u>
<b>Total Federal Awards</b>			<u>\$ 2,170,532</u>

See notes to the Schedule of Expenditures of Federal Awards

**CITY OF MUSKEGON HEIGHTS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

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1. The Schedule of Expenditures of Federal Awards is prepared in accordance with the modified accrual basis of accounting.
2. Reconciliation of revenues from federal sources per financial statements and expenditures per the Schedule of Expenditures of Federal Awards:

Federal revenue reported in governmental funds	<u>\$ 2,170,532</u>
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Expenditures reported on the schedule of expenditure of federal awards	<u>\$ 2,170,532</u>
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3. The City did not elect to use the 10% de minimis cost rate as covered in Uniform Guidance section 2 CFR 200.414 indirect costs.



**CITY OF MUSKEGON HEIGHTS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

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

**Federal Awards**

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

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	CARES Act

Dollar threshold used to distinguish between Type A and B programs:	<u>  \$750,000  </u>
Auditee qualified as low-risk auditee?	<u>      </u> yes <u>  X  </u> no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Material Weaknesses:

**2021-001**

**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.

**2021-002**

**Condition and Criteria:** Monthly reconciliations of bank and general ledger balances were not being prepared in a timely manner.

**Cause:** The City has not prepared reconciliations of bank and general ledger balances in a timely manner.

**Effect:** The interim and preliminary year-end financial statements of the City do not reflect accurate general ledger balances.

**Recommendation:** The City should develop and implement procedures to provide for timely reconciliation of month end bank and general ledger balances.

**Management Response:** Management will make additional human resources available to provide for timely reconciliations of bank and general ledger balances.

**CITY OF MUSKEGON HEIGHTS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Treasury**

Coronavirus State and Local Recovery Funds (ARPA)  
Assistance Listing Number 21.027

**2021-003**

**Material Weakness / Material noncompliance - procurement, suspension and debarment**

**Criteria:** The City is required to document vendor suspension and debarment for all federally funded purchases.

**Condition:** The City makes occasional purchases from vendors utilizing Federal funds.

**Questioned Costs:** None.

**Context:** Of the 13 transactions tested, one required consideration and documentation of suspension and debarment.

**Effect:** The City made a federally funded purchase from a vendor without consideration of vendor suspension and debarment. Subsequent review indicated the vendor was not suspended or debarred from federally funded purchases.

**Cause:** The City does not have policies and procedures in place to document vendor suspension and debarment for federally funded purchases.

**Recommendation:** The City should develop policies and procedures to document consideration of vendor suspension and debarment for all federally funded purchase.

**Views of responsible officials and planned corrective actions:** Management will develop policies and procedures to

**2021-004**

**Material Weakness / Material noncompliance - reporting**

**Criteria:** The City is required to report the ARPA expenditures following applicable grant reporting guidance.

**Condition:** The City has been unable to perform the ARPA expenditure reporting following applicable grant reporting guidance due to technical issues with the online grant reporting portal.

**Questioned costs:** None.

**Context:** The City was not able to complete the applicable ARPA expenditure grant reporting.

**Effect:** The City has not completed the applicable ARPA expenditure grant reporting.

**Cause:** The City has been unable to perform the ARPA expenditure reporting following applicable grant reporting guidance due to technical issues with the online grant reporting portal.

**Recommendation:** The City should contact the applicable federal agency to address technical issues with the online grant reporting portal and perform required reporting.

**Views of responsible officials and planned corrective actions:** The City agrees with this finding and management will contact the applicable federal agency to address technical issues and perform the required reporting.

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

**2020-001**

Finding was resolved and not repeated for 2021.

**2020-002**

Repeated in current year as 2021-001

**2020-003**

Repeated in current year as 2021-002



## CORRECTIVE ACTION PLAN

Certain matters were brought to our attention as a result of the audit process. These are described more fully in the Schedule of Findings and Questioned Costs. We evaluated the matters as noted below and have described our planned actions as a result.

### MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS 2021-001

Management Assessment: We concur with the audit assessment regarding this matter.

Planned Corrective Action: Management of the City will continue to review auditor recommendations/corrections and internal procedures related to the identification and correction of potential errors in the financial statements prior to the beginning of future audits. The Finance team will meet to review adjustments made to this year's financial statements and will develop a plan to address the most significant issues in a timelier manner going forward. Within budget constraints, Management will look to increase staffing levels and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various account balances.

Responsible Party: Finance Department

Date of Planned Corrective Action: December 31, 2022

### BANK RECONCILIATIONS 2021-002

Management Assessment: We concur with the audit assessment regarding this matter.

Planned Corrective Action: Management of the City will work on several areas of improvement to alleviate this issue. We will continue to review the need for the various bank accounts that have been established over the years with the view toward more consolidation. We will assign the responsibility for each of the bank accounts to various Finance staff members, who will be responsible for reconciling those statements in a timely manner. We will review the old outstanding reconciling items with the expectation of clearing them up before the end of the current year. We will look to increase staffing levels in Finance and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various bank statements.

Responsible Party: Finance Department

Date of Planned Corrective Action: December 31, 2022

PROCUREMENT, SUSPENSION AND DEBARMENT 2021-003

Management Assessment: We concur with the audit assessment regarding this matter.

Planned Corrective Action: Management of the City is in the process of updating several policies within the City. Examples of the policies that will come out of this update will be a new Procurement policy and a Federal Grant Management Policy. The Procurement policy will address suspension and debarment.

Responsible Party: City Manager

Date of Planned Corrective Action: December 31, 2022

FEDERAL GRANT REPORTING 2021-004

Management Assessment: We concur with the audit assessment regarding this matter.

Planned Corrective Action: The City continues to work with the Federal government to resolve the reporting issues that are occurring with the initial submission. The expectation will be that the Federal reporting will be completed as soon as possible, and all future reports be submitted in a timely fashion.

Responsible Party: City Manager

Date of Planned Corrective Action: December 31, 2022