

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Six Months Ended June 30, 2010

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**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
JUNE 30, 2010**

Prepared By

FINANCIAL SERVICES DIVISION

**Timothy Paul
Director of Finance**

**Elizabeth Lewis
Assistant Finance Director**

**Derrick Smith
City Treasurer**

**Kenneth Grant
Income Tax Administrator**

**James Maurer
Information Systems Director**

**Kathy Coleman
Finance & Payroll Coordinator**

Cover Photo: The Root Park fountain in downtown Muskegon. Donated to the City in 1902, the fountain was completely refurbished by city workers in 2010 with the help of Eagle-Alloy, Inc. (Courtesy of Ann Becker)

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City of Muskegon

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Affirmative
Action
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FAX (231)722-
1214

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

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

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

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

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

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

Fire Department
(231)724-6792
FAX (231)724-
6985

Income Tax
(231)724-6770
FAX (231)724-
6768

Inspection
Services
(231)724-6715
FAX (231)728-
4371

Leisure Services
(231)724-6704
FAX (231)724-
1196

Mayor's Office
(231)724-6701
FAX (231)722-
1214

Planning/Zoning
(231)724-6702
FAX (231)724-
6790

Police
Department
(231)724-6750
FAX (231)722-
5140

Public Works
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FAX (231)722-
4188

Treasurer
(231)724-6720
FAX (231)724-
6768

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November 5, 2010

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

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the six months ended June 30, 2010. In November 2009, voters approved City Charter amendments allowing the City Commission to set a fiscal year other than the calendar year that had been specified in the Charter. The Commission subsequently implemented this authority by setting June 30 as the City's new fiscal period end date. This CAFR report covers the six-month period from January 1, 2010 through June 30, 2010 that will transition the City to its new fiscal year.

This report includes the City's audited financial statements in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

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

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the

City of Muskegon, 933 Terrace Street, P.O. Box 536, Muskegon, MI 49443-0536
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maximum understanding of the City's finances have been included. Brickley DeLong, P.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of approximately 40,000, is the largest city on the eastern shore of Lake Michigan. The City is located in Muskegon County and is part of the Muskegon-Norton Shores MSA.

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

- Michigan Adventure, located north of the city, is the largest amusement park complex in Michigan. The City provides water to both the amusement park and the water park located on the site.
- Muskegon is the eastern terminus for the high speed cross-lake ferry. Connecting Muskegon with Milwaukee, Wisconsin, the *Lake Express* service ferries 100,000-plus passengers each season between the two cities. 2010 marked the ferry service's seventh successful year of operations.
- Muskegon is home to the annual Miss Michigan pageant.
- Pere Marquette beach is nationally recognized as one of the best beaches in the nation and is the only beach in Michigan to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches.
- Muskegon is home to successful summertime festivals that attract thousands of visitors to the community. These include *Muskegon Summer Celebration* which brings top name musical groups to town for 11 days of waterfront music celebration and the *Bike Time* festival which attracts motorcycle enthusiasts to the city each July.
- Muskegon is the cultural hub for West Michigan with numerous museums and live performances. The Muskegon Museum of Art has one of the best art collections in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of the Frauenthal Center for the Performing Arts to life throughout the year.
- Muskegon is home to three historic museum ships that attract thousands of visitors each year:
 - *USS Silversides*, a rare surviving World War II submarine maintained in pristine condition;
 - *LST-393*, a landing craft used in the D-day invasion and one of only two such vessels remaining in existence; and the

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- *Milwaukee Clipper*, a Great Lakes passenger ship built before the *Titanic* that for many years served as a cross-lake ferry between Muskegon and Milwaukee.

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

COMPONENT UNITS

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

- The Downtown Development Authority (DDA) exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated from development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority (LDFA) issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Brownfield Redevelopment Authority (BRA), which exists primarily for the purpose of financing redevelopment of designated environmental brownfields. The BRA generates tax increment revenues through development within its boundaries.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, paper products, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these employers provide stability to City finances in times of economic weakness.

Still, Muskegon has been heavily impacted by the current economic recession. Area unemployment remains high and the resultant impact in City income tax revenue has been severe. There are signs, though, that recovery has started. The W.E. Upjohn Institute for Employment Research publishes a regular local economic forecast. Their most recent quarterly forecast (September 2010) gives an upbeat assessment of the local economy:

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“(T)he (Muskegon) region’s prospects for continued growth should be good. Initial claims for unemployment insurance fell by 14.8 percent during the quarter to a level less than half of that seen at the same time last year. This decline clearly indicates that layoff activity has slowed and that local firms are feeling more confident about keeping workers. Also, the number of new dwelling units under contract grew by 28.9 percent as buyers slowly came out of hiding and ordered new homes. Although the number of new-dwelling-unit contracts still remains flat compared to a year ago, it may simply mean that the market will be stabilizing at a new, albeit lower, level.”

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2009 were the following:

- The City changed its fiscal year from a December 31 end date to a June 30 end date. The change was made to achieve the following:
 - Consistency and comparability with the overwhelming majority of Michigan cities that follow a June 30 fiscal year.
 - Even out workflows for a scaled back finance division staff by moving year-end close and audit tasks to a less crowded time of year;
 - Realize a significant one-time increase to the City’s General Fund fund balance.
- Development activity in the City’s downtown continued with several additional condominiums in the Heritage Square “live-work” development completed or started. A total of twenty-two units are planned for this downtown development.
- The City was successful in reaching agreements with several of its bargaining units that include significant savings in the area of retiree healthcare costs. Also, the agreement with the firefighters union allows the City to hire part-time firefighters to supplement the full-time force. The City believes that moving to a combination full-time/part-time fire service will be a big contributor to stabilizing City finances and services levels.
- Work continued on a major \$12 million auto dealership expansion encompassing GM, Honda and Hyundai brands. The GM and Honda facilities are completed and work is underway on the Hyundai facility as well as a used vehicle facility. The City assisted in this project with the creation of a Brownfield Redevelopment Authority and securing a low-interest state loan to help finance environmental work.

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OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

FINANCIAL POLICIES

The City's financial policies are reviewed and updated bi-annually. One of the more significant policy standards provides that the City maintain a General Fund fund balance equal to at least 10% of prior expenditures. At June 30, 2010, the City's General Fund fund balance was \$6,038,454 or 24.30% of prior year expenditures. The change in the City's fiscal year from a December 31 to June 30 year-end created a significant one-time boost to the fund balance. It should be noted too that the City maintains a separate Budget Stabilization fund that had a \$1.5 million balance at year-end.

DEBT ADMINISTRATION

At June 30, 2010, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$34,406,886. In April 2010, the City refunded \$6,030,000 in outstanding water system bonds. The refunding achieved net present value savings of \$334,200 or, 5.54% of refunded principal.

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Standard & Poor's rates the City's general obligation debt **A+**. The City's water revenue bonds carry a **AA-** rating, affirmed in March 2010.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City has transferred administrative responsibility for defined benefit pensions to the statewide Municipal Employees Retirement System (MERS) of Michigan. This was done to achieve the economies of scale and investment diversification that the \$5 billion MERS program offers. All new employees hired by the City since 2007 are covered by a defined contribution retirement program.

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

SINGLE AUDIT

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the year ended December 31, 2008. This marked the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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ACKNOWLEDGEMENTS

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

Respectfully submitted,

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

Bryon L. Mazade
City Manager

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

Timothy J. Paul
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2008

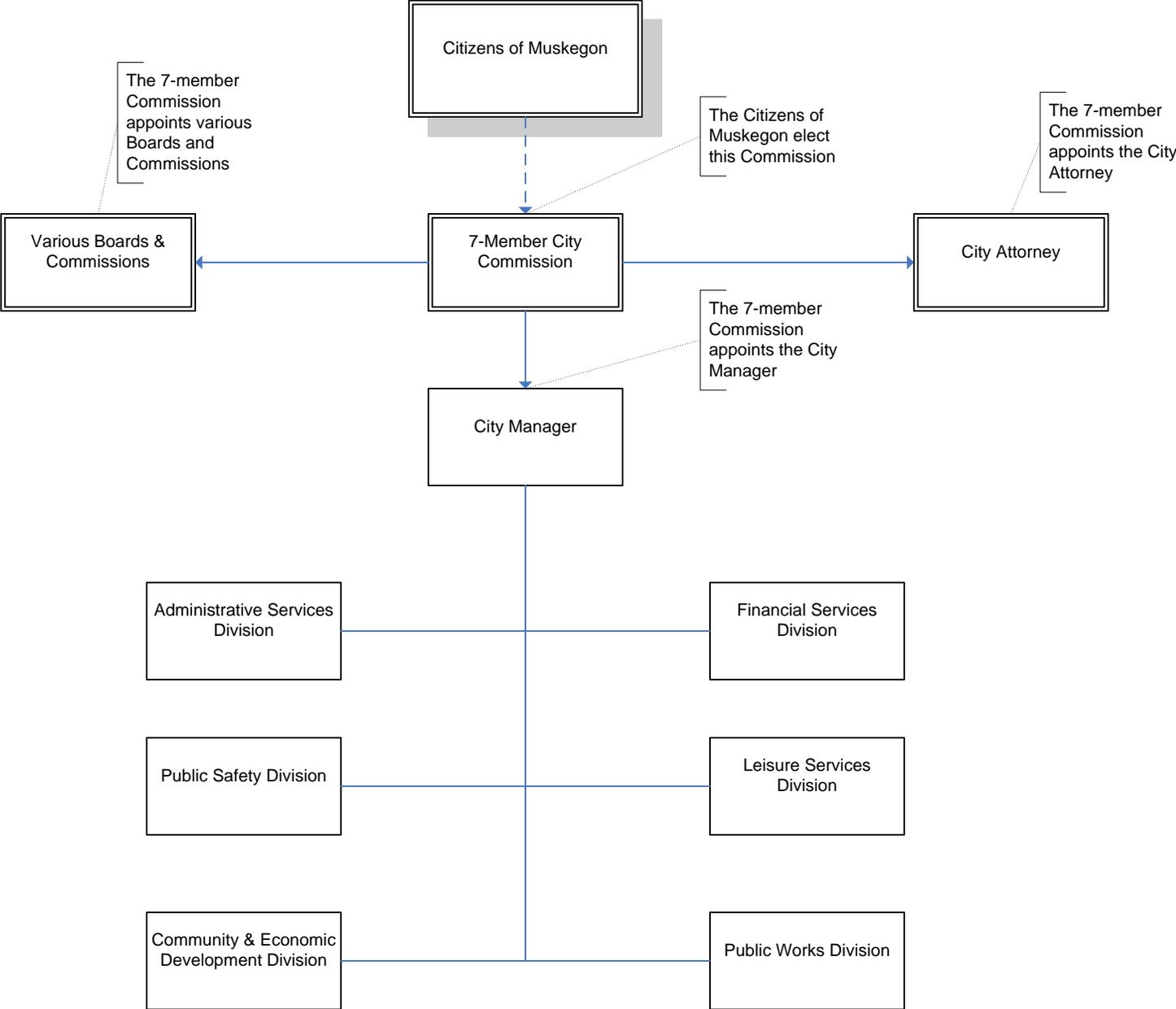
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

City Of Muskegon Organizational Chart



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

June 30, 2010

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Steve Wisneski
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 5, 2010

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon as of and for the six months ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 19 - 31 and 74 - 81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BRICKLEY DELONG

City Commission
November 5, 2010
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison information for nonmajor funds, schedule of indebtedness, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison information for nonmajor funds, schedule of indebtedness, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other record used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other record used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brickley De Long, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

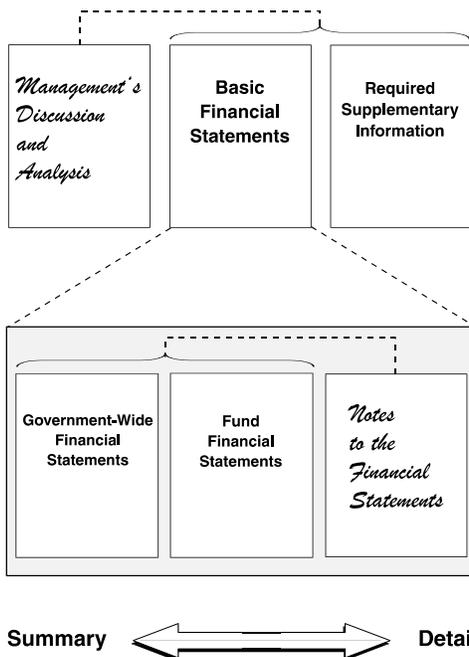
FINANCIAL HIGHLIGHTS

- The City changed its fiscal year end from December 31 to June 30. This financial report is for the six-month transition period ended June 30, 2010. The change in fiscal years was made to achieve the following benefits:
 - consistency with most other Michigan cities
 - smooth out finance division workflows
 - realize a significant one-time fund balance increase
- The assets of the City of Muskegon exceeded its liabilities by \$134,105,204 as of June 30, 2010. Of the total net assets, \$21,458,627 (16.0%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net assets increased \$4,630,892 (3.6%) during the six-month period ended June 30, 2010. This increase is primarily results from the fiscal year change noted above.
- The City's governmental funds reported combined ending fund balance of \$12,111,798, an increase of \$4,229,275 (53.6%) from the prior year.
- The City's General Fund reported a total fund balance of \$6,038,454, an increase of \$4,399,792 from the prior year. Again, this increase is due to the fiscal year change coupled with continued tight budget controls. Recognizing the one-time nature of this increase, the City has designated a large portion of the fund balance to pay down outstanding liabilities:
 - \$1.0 million is designated as a supplemental contribution to the City's defined benefit pension program to maintain 100% actuarial funding levels;
 - \$620,000 is designated for early retirement of an outstanding economic development loan from the State of Michigan;
 - \$334,605 is designated for early retirement of a lease-purchase contract for two City fire trucks; and
 - \$100,000 is designated to pay future debt service on outstanding sidewalk assessment bonds.

These payments were made in October 2010.

- The City maintains a separate Budget Stabilization (or "rainy day") Fund that reported a \$1.5 million fund balance of at June 30, 2010, unchanged from the previous fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS



This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.

- Summary
←
→
 Detail
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The figure above shows how the required parts of this annual report are arranged and related to one another.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement

of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, federal grants, property taxes and revenues from the State of Michigan finance most of these activities.

Also included in the government-wide statements are the City's business-type activities: water, sewer and marina operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes four component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA), the Local Development Finance Authority (LDFA) and, the Brownfield Redevelopment Authority (BRA). Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. The total net assets of the City were \$134,105,204 as of June 30, 2010. This is an increase of \$4,630,892 from reported net assets for the prior year. An overview of the City's net assets follows:

City's Net Assets

(In Thousands of Dollars)

	Governmental		Business-Type		Total		Percentage Change
	Activities		Activities				
	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	
Current and other assets	\$20,026	\$23,192	\$8,985	\$7,510	\$29,011	\$30,701	-5.51%
Capital assets	75,306	76,739	58,859	59,912	134,165	136,651	-1.82%
Total Assets	95,332	99,931	67,844	67,422	163,176	167,353	-2.50%
Long-term liabilities	8,229	8,492	16,702	17,105	24,931	25,597	-2.60%
Other liabilities	2,406	10,497	1,734	1,785	4,139	12,282	-66.30%
Total Liabilities	10,635	18,989	18,436	18,890	29,070	37,879	-23.26%
Net Assets							
Invested in capital assets, net of related debt	67,810	69,065	41,106	41,876	108,916	110,941	-1.83%
Restricted	3,059	2,956	672	672	3,731	3,628	2.84%
Unrestricted	13,828	8,921	7,630	5,984	21,458	14,905	43.97%
Total Net Assets	\$84,697	\$80,942	\$49,408	\$48,532	\$134,105	\$129,474	3.58%

* Six-month fiscal period

The bulk of the City's net assets (\$108,915,369 or 81%) represent investments in capital infrastructure assets, less the remaining balance of debt issued to acquire those assets. Infrastructure assets are used to provide public services to citizens and are not available for spending. Another 2.8% (\$3,731,208) of the City's net assets are legally restricted as to use. Remaining net assets (\$21,458,627) are unrestricted and may be used to meet the City's operating needs and ongoing obligations. Significantly, the City's unrestricted net assets increased \$6,554,071 (44%) due mostly to the change in fiscal years.

Changes in net assets. The City's total revenues were \$26,275,038 for the six months ended June 30, 2010. This represents about 60% of total revenues collected during the City's last twelve-month fiscal year ended December 31, 2009. About 32% of the City's revenue stream came from charges to users of specific services such as water or sewer. Another thirteen percent came from grants from the state and federal governments and forty-six percent was from local property and income taxes. The remainder was comprised of state revenues and other sources such as franchise fees and investment income.

The total cost of all City programs and services for the six months ended June 30, 2010 was \$21,644,146. This represents 46% of total expenses incurred during the City's last twelve-month fiscal year ended December 31, 2009. Seventy-four percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-six percent represents the costs of the City's business-type activities, specifically, water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$4,630,892) represents the increase in total net assets realized in the six-month fiscal period ended June 30, 2010. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into period-to-period changes in individual revenue and expense categories:

Changes in City's Net Assets							
(In thousands of dollars)							
	Governmental		Business-Type		Total		Percentage Change
	Activities		Activities				
	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	
Program revenues							
Charges for services	\$1,964	\$3,875	\$6,490	\$11,846	\$8,454	\$15,721	-46.22%
Operating grants and contributions	3,132	6,443	-	-	3,132	6,443	-51.39%
Capital grants and contributions	255	2,106	-	5	255	2,111	-87.92%
General revenues							
Property taxes	8,681	8,493	-	-	8,681	8,493	2.21%
Income taxes	3,505	6,628	-	-	3,505	6,628	-47.12%
State shared revenues	1,832	3,842	-	-	1,832	3,842	-52.32%
All other	400	857	17	24	417	881	-52.65%
Total revenues	19,769	32,244	6,507	11,875	26,276	44,119	-40.44%
Governmental activities expenses							
Public representation	445	924	-	-	445	924	-51.84%
Administrative services	318	698	-	-	318	698	-54.44%
Financial services	1,210	2,406	-	-	1,210	2,406	-49.71%
Public safety	6,333	13,614	-	-	6,333	13,614	-53.48%
Public works	1,641	2,987	-	-	1,641	2,987	-45.06%
Highways, streets and bridges	3,680	7,161	-	-	3,680	7,161	-48.61%
Community and economic development	1,275	4,140	-	-	1,275	4,140	-69.20%
Culture and recreation	760	2,463	-	-	760	2,463	-69.14%
General administration	210	452	-	-	210	452	-53.54%
Interest on long-term debt	139	288	-	-	139	288	-51.74%
Business-type activities expenses							
Water	-	-	2,959	6,080	2,959	6,080	-51.33%
Sewer	-	-	2,525	5,427	2,525	5,427	-53.47%
Marina and Launch Ramp	-	-	150	311	150	311	-51.77%
Total expenses	16,011	35,133	5,634	11,818	21,645	46,951	-53.90%
Change in net assets before transfers	3,758	(2,889)	873	57	4,631	(2,832)	-263.50%
Transfers	(3)	-	3	-	-	-	-
Change in net assets	3,755	(2,889)	876	57	4,631	(2,832)	-263.50%
Net assets at beginning of year	80,942	83,831	48,532	48,475	129,474	132,306	-2.14%
Net assets at end of year	\$84,697	\$80,942	\$49,408	\$48,532	\$134,105	\$129,474	3.58%

* Six-month fiscal period

Net assets for governmental activities increased \$3,755,199 while net assets for business-type activities increased of \$875,693. Both increases can be attributed primarily to the financial impact of changing the City's fiscal year.

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid specifically related to the function). The *net cost* reflects the portion of costs funded by local tax dollars and other general resources:

- The operational cost of all governmental activities during the six months ended June 30, 2010 was \$16,010,229.
- The net cost that City taxpayers paid for these activities through local property taxes and income taxes was \$12,186,520, or 75% of the total.
- The remaining cost was paid by user charges to those directly benefitting from the programs or by state and federal grants and contributions

Net Cost of Selected City Functions (in thousands of dollars)						
	Total Cost of Services			Net Cost of Services		
	6/30/2010*	12/31/2009	% Change	6/30/2010*	12/31/2009	% Change
Governmental activities						
Public safety	\$6,333	\$13,614	-53.48%	\$5,666	\$12,415	-54.36%
Community and economic development	1,275	4,140	-69.20%	(482)	500	-196.40%
Culture and recreation	760	2,463	-69.14%	611	1,996	-69.39%
Highways, streets and bridges	3,680	7,161	-48.61%	1,919	1,964	-2.29%
Public works	1,641	2,987	-45.06%	1,416	2,561	-44.71%
All other	2,322	4,769	-51.31%	1,529	3,272	-53.27%
Total governmental activities	\$16,011	\$35,133	-54.43%	\$10,659	\$22,709	-53.06%

* Six-month fiscal period

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For the six months ended June 30, 2010, the City's total business-type activities realized an overall increase in net assets of \$875,693.

Sewer Fund net assets increased \$916,527 primarily as result of higher fees for services and stabilization in wholesale sewage treatment costs paid to Muskegon County. The Water Fund saw net assets fall \$74,154. This falloff is attributable to the fact the six month fiscal period reported here did not include the summer season, typically the peak collection period for water revenues. Marina and Launch Ramp Fund net assets increased \$10,459 due to lower operating costs brought about by tight budget controls.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for the fiscal period ended June 30, 2010 were the General Fund and the Major Street and Trunkline Fund.

General Fund Highlights

The General Fund receives most public attention since it is where local tax revenues are accounted for and where the most visible municipal services such as police, fire and parks are funded. The City reforecasts its General Fund budget on a quarterly basis taking into account changing economic conditions and policy priorities. The following table shows the General Fund year-end fund balance for the last five years.

Year Ended	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target=10%)
6/30/2010*	\$6,038,454	153.32%	\$24,850,082	24.30%
12/31/2009	1,638,662	-31.26%	26,100,530	6.28%
12/31/2008	2,383,725	-18.38%	24,800,810	9.61%
12/31/2007	2,920,632	8.57%	24,498,778	11.92%
12/31/2006	2,690,039	6.76%	23,658,227	11.37%

* Six-month fiscal period

The City changed its fiscal year transitioning with a six-month fiscal period ended June 30, 2010. This change resulted in a significant one-time increase to the General Fund fund balance due to the fact that annual property taxes are collected in full during this period. The fiscal year change was implemented not only for the positive financial statement impacts, but also to achieve 1) improved comparability with other Michigan cities (most of which are already on June 30 fiscal years) and, 2) more level workflows for the City's finance staff by moving year-end audit functions away from the heavy federal and state reporting requirements at the end of each calendar year.

General Fund revenues for the six-month transition period ended June 30, 2010 were \$907,355 higher than the amended budget estimate made at the time it was decided to implement a new fiscal year. The positive revenue variance is mostly due to higher than expected income tax revenues and to a one-time industrial facilities tax payment. Another benefit realized by the City from the change in fiscal years is that it was not necessary to use Budget Stabilization fund reserves. The original budget anticipated using \$500,000 from the Budget Stabilization fund to help offset declining revenues.

General Fund expenditures were \$1,797,641 less than projected in the amended budget. Almost all city departments spent less than expected due to a combination of 1) tight budget controls, 2) conservative budget projections and, 3) cost savings realized from budget cuts made in the prior year.

Major Street and Trunkline Fund Highlights

The Major Street and Trunkline Fund accounts for all of the City's street construction and maintenance activities on its primary road system. Primary funding comes from the State of Michigan. During the six months ended June 30, 2010, the fund balance of the Major Street and Trunkline Fund increased \$86,311.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010, the City and its component units had invested \$137,225,998 in a variety of capital assets, including land, streets, equipment, buildings, water and sewer lines, and vehicles. This is a decrease of \$2,572,531 from capital assets as of December 31, 2009. The decrease is due to normal depreciation and to the fact that capital construction activity during the first six months of the year is generally light. Note D of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

Long-Term Debt

At June 30, 2010, the City had \$26,681,764 in bonds and other long-term obligations outstanding. This represents a decrease of 6.5% from the prior year. On April 1, 2010 \$6,030,000 of outstanding Water System Revenue Bonds were refunded with new bonds issued at lower interest rates. The net present value savings from the refunding are \$334,200 or 5.54% of the refunded principal amount. This represents the only significant debt activity during the six months ended June 30, 2010.

Bond Ratings

The City's limited full faith and credit bonds (bonds guaranteed by the City's taxing powers) were upgraded by Standard & Poor's from a rating of "A" to "A+" in early 2010. The City's Water System revenue bonds carry the "AA-" rating.

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

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

	Governmental		Business-Type		Total		Percentage Change
	Activities		Activities				
	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	6/30/2010*	12/31/2009	
Due within one year	\$527	\$611	\$1,223	\$1,182	\$1,750	\$1,793	-2.40%
Due in more than one year	8,230	8,493	16,702	17,106	24,932	25,599	-2.61%
Total bonds & other obligations	\$8,757	\$9,104	\$17,925	\$18,288	\$26,682	\$27,392	-2.59%

* Six-month fiscal period

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$7,725,122 at year-end as shown in the table below. This represents a decrease of 2.9% from the prior year. No new component unit debt was issued during the first six months of 2010.

Debt issued by component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note H to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations							
(In thousands of dollars)							
	Downtown Development Finance Authority		Local Development Finance Authority		Total		Percentage
	<u>6/30/2010*</u>	<u>12/31/2009</u>	<u>6/30/2010*</u>	<u>12/31/2009</u>	<u>6/30/2010*</u>	<u>12/31/2009</u>	<u>Change</u>
Due within one year	\$240	\$230	\$80	\$80	\$320	\$310	3.23%
Due in more than one year	<u>3,005</u>	<u>3,245</u>	<u>4,400</u>	<u>4,400</u>	<u>7,405</u>	<u>7,645</u>	<u>-3.14%</u>
Total bonds & other obligations	\$3,245	\$3,475	\$4,480	\$4,480	\$7,725	\$7,955	-2.89%

* Six-month fiscal period

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2010-11 capital budget anticipates spending \$7,256,925 for capital projects, consisting of street improvements, water and sewer system improvements, and scheduled equipment replacements. These improvements will be funded through grants and revenues generated from operations. The City may issue bonds during 2010-11 to provide matching funds for several significant street projects for which state and federal matching grants are available.

From an operating standpoint, the City's 2010-11 budget will entail further program and position cuts to better balance the City's operating expenses with recurring revenue streams:

- Several positions are scheduled to be eliminated with job functions being consolidated with remaining positions;
- Three firefighter positions were scheduled to be cut. However, the City and its firefighter's union were able to reach agreement on an innovative contract that will, among other things, allow the City to hire part-time firefighters in the future.
- Other service cuts including elimination of lifeguards at Pere Marquette Beach, removal of some mid-block streetlights and reductions in the use of seasonal workers in parks and cemeteries are also scheduled.

City operations depend on five major sources of revenue: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for about three-quarters of total revenues. Meaningful discussion of the City's financial outlook needs to center on these major income sources.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The income tax rate is 1% on City residents and ½ of 1% on non-residents working in the City. The income tax provides key advantages for core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services. Second, it allows the City to benefit from development occurring outside City limits because City residents employed by non-City employers pay income taxes. Finally, the income tax generates revenue from workers at not-for-profit hospitals, churches, government agencies, colleges and other institutions that are traditionally exempt from paying local property taxes. This is particularly important for Muskegon since it is the regional center for many such institutions.

Income tax revenues fell from \$6,482,200 in 2009 to \$3,368,057 for 2010 due to the fiscal year change and six month reporting period. For 2010-11, the City has conservatively estimated income tax revenue to be \$6,000,000.

Year	City Income Tax Revenues	Percent Change
6/30/2010*	\$3,368,057	-48.0%
12/31/2009	6,482,290	-15.8%
12/31/2008	7,694,780	1.0%
12/31/2007	7,618,461	2.6%
12/31/2006	7,425,173	4.8%

* Six-month fiscal period

Local Property Tax

City charter and state law authorize the City to levy a general operating millage up to 10 mills and a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy.

For 2010-11, the City has increased its operating millage from 8.5 to 9.5 mills. The sanitation millage will remain at 2.5 mills. We project \$8,334,919 in property tax revenue. On the November 2010 ballot is a proposed City Charter amendment that, if

passed, would allow the City to levy 1 mill for street maintenance. If passed, the City intends to roll back the general operating millage to 8.5 mills.

Year	Total Assessed Value	Percent Change	Estimated Actual Value
2009	\$867,330,950	-4.23%	\$1,734,661,900
2008	905,682,400	2.65%	1,811,364,800
2007	882,300,288	3.11%	1,764,600,576
2006	855,662,300	2.78%	1,711,324,600
2005	832,507,264	0.19%	1,665,014,528
2004	830,948,500	-0.97%	1,661,897,000

It should be noted that a major property taxpayer ceased operations in the City within the last twelve months. The property is currently for sale and the current owner has agreed to continue paying property taxes at current values for one additional year. The impact of this plant closure on City finances is being monitored closely.

State Shared Revenues

State shared sales tax revenues represent about sixteen percent of total General Fund revenue. The City's state shared revenue allocation is made up of two parts. The constitutional component is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis and that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
6/30/2010*	\$1,832,066	-52.3%
12/31/2009	3,841,922	-14.4%
12/31/2008	4,487,698	0.3%
12/31/2007	4,475,462	-1.8%
12/31/2006	4,556,801	-0.8%

* Six-month fiscal period

Erosion of state shared revenues (both from economic factors and from legislative action) constitutes a major on-going concern for City finances.

For 2010-11 fiscal year, the City has projected \$3,774,813 in state shared revenues and the most recent information available indicate that this estimate remains viable.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets within the City. These revenues have not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
6/30/2010*	\$1,741,233	-45.2%
12/31/2009	3,177,862	-0.7%
12/31/2008	3,199,930	-2.7%
12/31/2007	3,288,098	-0.3%
12/31/2006	3,297,183	-0.7%

* Six-month fiscal period

For 2010-11, the City is projecting no material change in street funds from the State of Michigan.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City’s largest income stream totaling \$6,333,093 during the six month period ended June 30, 2010. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. During 2009, sewer rates were increased twelve percent as result of higher wastewater treatment and debt service charges enacted by Muskegon County. A further sewer rate increases will likely be needed in 2010-11 due to the shutdown of a major industrial sewer customer. Water rates are expected to remain stable in 2010-11.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City’s finances and to demonstrate the City’s accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City’s component units, contact the City’s Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
June 30, 2010

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 13,209,870	\$ 4,261,377	\$ 17,471,247	\$ 403,953
Receivables	3,044,677	2,104,819	5,149,496	-
Due from other governmental units	2,363,683	69,830	2,433,513	-
Internal balances	(1,504,692)	1,504,692	-	-
Due from component units	9,217	-	9,217	-
Inventories	28,711	128,681	157,392	-
Prepaid items	1,091,959	109,879	1,201,838	-
Total current assets	18,243,425	8,179,278	26,422,703	403,953
NONCURRENT ASSETS				
Restricted assets	-	672,000	672,000	-
Capital assets, net				
Nondepreciable	19,128,717	2,468,044	21,596,761	400,000
Depreciable	56,176,749	56,390,830	112,567,579	2,661,658
Bond issuance costs, net	121,150	134,250	255,400	95,673
Special assessments receivable	1,345,704	-	1,345,704	-
Notes receivable	316,231	-	316,231	-
Total noncurrent assets	77,088,551	59,665,124	136,753,675	3,157,331
Total assets	95,331,976	67,844,402	163,176,378	3,561,284

LIABILITIES AND NET ASSETS (DEFICITS)

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,361,827	183,166	1,544,993	41,600
Due to other governmental units	19,962	328,073	348,035	-
Due to primary government	-	-	-	9,217
Unearned revenue	496,382	-	496,382	-
Bonds and other obligations, due within one year	527,300	1,223,100	1,750,400	320,000
Total current liabilities	2,405,471	1,734,339	4,139,810	370,817
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	8,229,436	16,701,928	24,931,364	7,405,122
Total liabilities	10,634,907	18,436,267	29,071,174	7,775,939
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	67,809,630	41,105,739	108,915,369	(1,418,464)
Restricted for:				
Streets and highways	1,725,685	-	1,725,685	-
Debt service	-	672,000	672,000	-
Perpetual care	16,979	-	16,979	-
Expendable	1,316,544	-	1,316,544	-
Non-expendable	13,828,231	7,630,396	21,458,627	(2,796,191)
Unrestricted	84,697,069	49,408,135	134,105,204	\$ (4,214,655)
Total net assets (deficits)	\$ 84,697,069	\$ 49,408,135	\$ 134,105,204	\$ (4,214,655)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the six months ended June 30, 2010

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						
	Expenses	Charges for services	Program Revenue		Primary Government		Component units
			Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	
Primary government							
Governmental activities							
Public representation services	\$ 445,251	\$ 100,177	\$ -	\$ -	\$ (345,074)	\$ -	-
Administrative services	317,873	129,630	2,394	-	(185,849)	-	(185,849)
Financial services	1,209,694	475,031	25,000	-	(709,663)	-	(709,663)
Public safety	6,332,728	536,419	130,770	-	(5,665,539)	-	(5,665,539)
Public works	1,640,946	209,203	-	15,501	(1,416,242)	-	(1,416,242)
Highways, streets and bridges	3,680,196	139,009	1,613,077	9,443	(1,918,667)	-	(1,918,667)
Community and economic development	1,275,026	186,572	1,340,830	230,290	482,666	-	482,666
Culture and recreation	759,392	129,025	19,740	-	(610,627)	-	(610,627)
General administration	210,117	59,373	-	-	(150,744)	-	(150,744)
Interest on long-term debt	139,006	-	-	-	(139,006)	-	(139,006)
Total governmental activities	16,010,229	1,964,439	3,131,811	255,234	(10,658,745)	-	(10,658,745)
Business-type activities							
Sewer	2,525,067	3,441,924	-	-	916,857	-	916,857
Water	2,958,795	2,891,169	-	-	(67,626)	-	(67,626)
Marina and Launch Ramp	150,055	156,767	-	-	6,712	-	6,712
Total business-type activities	5,633,917	6,489,860	-	-	855,943	-	855,943
Total primary government	\$ 21,644,146	\$ 8,454,299	\$ 3,131,811	\$ 255,234	(10,658,745)	-	(9,802,802)
Component units							
Local Development Finance Authority III	\$ 188,108	\$ -	\$ -	\$ 50,000	-	-	(138,108)
Downtown Development Authority	57,726	-	-	-	-	-	(57,726)
Tax Increment Finance Authority	25,000	-	-	-	-	-	(25,000)
Brownfield Redevelopment Authority	14,920	-	-	-	-	-	(14,920)
Total component units	\$ 285,754	\$ -	\$ -	\$ 50,000	-	-	(235,754)
General revenues							
Property taxes					8,681,256	-	8,681,256
Income taxes					3,505,264	-	3,505,264
Cable franchises					178,239	-	178,239
Grants and contributions not restricted to specific programs					1,832,066	-	1,832,066
Unrestricted investment earnings					104,086	15,990	120,076
Miscellaneous					51,638	-	51,638
Gain on sale of capital asset					65,155	-	65,155
Transfers					(3,760)	3,760	-
Total general revenues and transfers					14,413,944	19,750	14,433,694
Change in net assets					3,755,199	875,693	4,630,892
Net assets (deficit) at January 1, 2010					80,941,870	48,532,442	129,474,312
Net assets (deficit) at June 30, 2010					\$ 84,697,069	\$ 49,408,135	\$ 134,105,204

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
 Governmental Funds
 June 30, 2010

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 4,269,650	-	\$ 4,624,184	\$ 8,893,834
Receivables				
Accounts and loans	201,136	36,587	723,615	961,338
Property taxes	70,713	-	-	70,713
Income taxes	836,896	-	-	836,896
Special assessments	-	712,984	679,720	1,392,704
Due from other governmental units	805,809	440,883	1,116,990	2,363,682
Due from other funds	-	-	1,241,916	1,241,916
Due from component units	-	-	9,217	9,217
Prepaid items	290,969	27,289	6,673	324,931
Total assets	<u>\$ 6,475,173</u>	<u>\$ 1,217,743</u>	<u>\$ 8,402,315</u>	<u>\$ 16,095,231</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 257,029	\$ 32,547	\$ 464,916	\$ 754,492
Accrued liabilities	119,281	4,674	6,613	130,568
Due to other governmental units	14,109	5,853	-	19,962
Due to other funds	-	102,528	1,040,496	1,143,024
Deferred revenue	46,300	712,984	1,176,103	1,935,387
Total liabilities	<u>436,719</u>	<u>858,586</u>	<u>2,688,128</u>	<u>3,983,433</u>
Fund balances				
Reserved for:				
Prepaid items	290,969	27,289	6,673	324,931
Long-term loans receivable	-	-	293,100	293,100
Capital projects	-	-	2,253,683	2,253,683
Perpetual care	10,000	-	1,306,544	1,316,544
Unreserved				
Designated, reported in				
General Fund	2,054,605	-	-	2,054,605
Capital projects funds	-	-	247,439	247,439
Undesignated, reported in				
General Fund	3,682,880	-	-	3,682,880
Special revenue funds	-	331,868	1,831,173	2,163,041
Capital projects funds	-	-	(241,404)	(241,404)
Permanent funds	-	-	16,979	16,979
Total fund balances	<u>6,038,454</u>	<u>359,157</u>	<u>5,714,187</u>	<u>12,111,798</u>
Total liabilities and fund balances	<u>\$ 6,475,173</u>	<u>\$ 1,217,743</u>	<u>\$ 8,402,315</u>	<u>\$ 16,095,231</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
 June 30, 2010

Total fund balance—governmental funds		\$ 12,111,798
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 124,291,432	
Accumulated depreciation	<u>(50,795,949)</u>	73,495,483
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	160,106	
Accumulated amortization	<u>(38,956)</u>	121,150
Other receivables in governmental activities are not reported in the governmental funds.		
		571,300
Accrued interest in governmental activities is not reported in the governmental funds.		
		(59,600)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		
		1,392,704
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(7,495,836)	
Compensated absences	<u>(1,159,626)</u>	(8,655,462)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		
		<u>5,719,696</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 84,697,069</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the six months ended June 30, 2010

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
REVENUES				
Taxes	\$ 11,855,182	-	-	\$ 11,855,182
Licenses and permits	584,162	-	-	584,162
Intergovernmental revenues				
Federal	122,965	9,443	848,127	980,535
State	1,839,871	1,280,365	659,723	3,779,959
Local	25,000	-	-	25,000
Charges for services	1,206,213	7,961	124,020	1,338,194
Fines and forfeitures	296,543	-	500	297,043
Interest and rental income	92,338	44,302	57,233	193,873
Other	118,303	11,211	564,303	693,817
Total revenues	<u>16,140,577</u>	<u>1,353,282</u>	<u>2,253,906</u>	<u>19,747,765</u>
EXPENDITURES				
Current				
Public representation services	448,703	-	-	448,703
Administrative services	255,166	-	-	255,166
Financial services	1,241,430	-	-	1,241,430
Public safety	6,571,096	-	7,639	6,578,735
Public works	1,589,090	-	-	1,589,090
Highways, streets and bridges	-	1,166,971	850,168	2,017,139
Community and economic development	419,534	-	-	419,534
Culture and recreation	636,652	-	3,200	639,852
Other governmental functions	200,623	-	-	200,623
Debt service				
Principal	-	-	303,466	303,466
Interest and fees	109,174	-	26,839	136,013
Capital outlay	13,722	-	1,732,699	1,746,421
Total expenditures	<u>11,485,190</u>	<u>1,166,971</u>	<u>2,924,011</u>	<u>15,576,172</u>
Excess of revenues over (under) expenditures	4,655,387	186,311	(670,105)	4,171,593
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	75,465	75,465
Transfers in	2,188	-	340,000	342,188
Transfers out	(257,783)	(100,000)	(2,188)	(359,971)
Total other financing sources (uses)	<u>(255,595)</u>	<u>(100,000)</u>	<u>413,277</u>	<u>57,682</u>
Net change in fund balances	4,399,792	86,311	(256,828)	4,229,275
Fund balances at January 1, 2010	1,638,662	272,846	5,971,015	7,882,523
Fund balances at June 30, 2010	<u>\$ 6,038,454</u>	<u>\$ 359,157</u>	<u>\$ 5,714,187</u>	<u>\$ 12,111,798</u>

The accompanying notes are an integral part of this statement.

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

For the six months ended June 30, 2010

Net change in fund balances—total governmental funds	\$ 4,229,275
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	\$ (2,143,236)
Capital outlay	<u>(1,162,414)</u>
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of the capital assets.	(2,488)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	(35,000)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	302,987
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,300
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	51,009
Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(47,822)
The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	
Change in net assets of governmental activities	<u>418,352</u>
	<u>\$ 3,755,199</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
 Proprietary Funds
 June 30, 2010

ASSETS

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	
CURRENT ASSETS				
Cash and investments	\$ 1,585,879	\$ 2,456,123	\$ 219,375	\$ 4,316,036
Accounts receivable	1,089,868	1,010,843	4,108	919,963
Due from other governmental units	-	64,580	5,250	-
Inventories	31,233	97,448	-	28,711
Prepaid items	43,388	63,999	2,492	767,028
Total current assets	2,750,368	3,692,993	231,225	6,031,738
NONCURRENT ASSETS				
Restricted assets	-	672,000	-	-
Capital assets				
Land	16,188	103,500	22,562	65,000
Land improvements	-	-	1,888,965	121,648
Buildings, improvements and systems	19,675,396	62,895,980	2,322,488	1,559,334
Machinery and equipment	39,722	2,788,156	-	7,006,260
Construction in progress	632,904	1,692,890	-	-
Less accumulated depreciation	(7,161,808)	(23,825,376)	(2,232,693)	(6,942,259)
Net capital assets	13,202,402	43,655,150	2,001,322	1,809,983
Bond issuance costs, net	-	134,250	-	-
Total noncurrent assets	13,202,402	44,461,400	2,001,322	1,809,983
Total assets	15,952,770	48,154,393	2,232,547	7,841,721
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	1,386	56,288	9,793	406,687
Accrued liabilities	3,978	110,293	1,428	10,480
Due to other governmental units	302,598	25,475	-	-
Due to other funds	-	-	-	98,892
Bonds and other obligations, due within one year	9,000	1,214,000	100	17,300
Total current liabilities	316,962	1,406,056	11,321	533,359
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	45,643	16,655,787	498	83,974
Total liabilities	362,605	18,061,843	11,819	617,333
NET ASSETS				
Invested in capital assets, net of related debt	13,202,402	25,902,015	2,001,322	1,809,983
Restricted for debt service	-	672,000	-	-
Unrestricted	2,387,763	3,518,535	219,406	5,414,405
Total net assets	\$ 15,590,165	\$ 30,092,550	\$ 2,220,728	\$ 7,224,388
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				1,504,692
Net assets of business-type activities				\$ 49,408,135

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the six months ended June 30, 2010

	Business-type Activities - Enterprise Funds			Total	
	Sewer	Water	Marina and Launch Ramp		
OPERATING REVENUES					
Charges for services	\$ 3,407,733	\$ 2,795,713	\$ 152,416	\$ 6,355,862	\$ 4,254,554
Other	34,191	95,456	4,351	133,998	46,579
Total operating revenues	3,441,924	2,891,169	156,767	6,489,860	4,301,133
OPERATING EXPENSES					
Administration	188,402	259,451	11,268	459,121	160,176
Insurance premiums and claims	-	-	-	-	1,884,968
Wastewater treatment	2,136,938	-	-	2,136,938	-
Filtration plant operations	-	666,691	-	666,691	-
Water distribution	-	649,133	-	649,133	-
Other operations	-	-	82,446	82,446	1,644,498
Depreciation and amortization	201,736	1,074,308	57,099	1,333,143	271,813
Total operating expenses	2,527,076	2,649,583	150,813	5,327,472	3,961,455
Operating income	914,848	241,586	5,954	1,162,388	339,678
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,679	13,566	745	15,990	20,400
Gain on sale of capital assets	-	-	-	-	67,112
Interest expense	-	(329,306)	-	(329,306)	-
Total nonoperating revenue (expenses)	1,679	(315,740)	745	(313,316)	87,512
Income (loss) before transfers	916,527	(74,154)	6,699	849,072	427,190
Transfers in	-	-	3,760	3,760	14,023
Change in net assets	916,527	(74,154)	10,459	852,832	441,213
Net assets at January 1, 2010	14,673,638	30,166,704	2,210,269		6,783,175
Net assets at June 30, 2010	\$ 15,590,165	\$ 30,092,550	\$ 2,220,728		\$ 7,224,388
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				22,861	
Change in net assets of business-type activities				875,693	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
 Proprietary Funds
 For the six months ended June 30, 2010

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	-		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 3,514,365	\$ 2,781,819	\$ 155,862	\$ -	\$ 6,452,046	\$ 49,456
Receipts from interfund services provided	6,304	17,869	-	-	24,173	3,993,626
Payments to suppliers	(1,926,569)	(772,714)	(53,563)	-	(2,752,846)	(3,014,539)
Payments to employees	(221,909)	(594,368)	(30,592)	-	(846,869)	(665,819)
Payments for interfund services used	(245,455)	(317,728)	(6,833)	-	(570,016)	(520,771)
Net cash provided by (used for) operating activities	1,126,736	1,114,878	64,874	-	2,306,488	(158,047)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	3,760	-	3,760	14,023
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from refunding debt	-	5,995,000	-	-	5,995,000	-
Premium on refunding debt	-	188,136	-	-	188,136	-
Issuance costs of refunding debt	-	(134,250)	-	-	(134,250)	-
Purchases of capital assets	(64,016)	(185,979)	-	-	(249,995)	-
Principal paid on capital debt	-	(6,565,000)	-	-	(6,565,000)	-
Interest paid on capital debt	-	(271,522)	-	-	(271,522)	-
Proceeds from sale of capital assets	-	-	-	-	-	67,404
Net cash provided by (used for) capital and related financing activities	(64,016)	(973,615)	-	-	(1,037,631)	67,404
CASH FLOW FROM INVESTING ACTIVITIES						
Investment earnings	1,679	13,566	745	-	15,990	20,400
Net increase (decrease) in cash and investments	1,064,399	154,829	69,379	-	1,288,607	(56,220)
Cash and investments at January 1, 2010	521,480	2,973,294	149,996	-	3,644,770	4,372,256
Cash and investments at June 30, 2010	<u>\$ 1,585,879</u>	<u>\$ 3,128,123</u>	<u>\$ 219,375</u>	<u>\$ -</u>	<u>\$ 4,933,377</u>	<u>\$ 4,316,036</u>
Reconciliation of cash and investments to the statement of net assets						
Cash and investments	\$ 1,585,879	\$ 2,456,123	\$ 219,375	\$ -	\$ 4,261,377	\$ 4,316,036
Restricted cash and investments	-	672,000	-	-	672,000	-
	<u>\$ 1,585,879</u>	<u>\$ 3,128,123</u>	<u>\$ 219,375</u>	<u>\$ -</u>	<u>\$ 4,933,377</u>	<u>\$ 4,316,036</u>
Reconciliation of operating income to net cash provided by (used for) operating activities						
Operating income	\$ 914,848	\$ 241,586	\$ 5,954	\$ -	\$ 1,162,388	\$ 339,678
Adjustments to reconcile operating income to net cash provided by (used for) operating activities						
Depreciation and amortization expense	201,736	1,074,308	57,099	-	1,333,143	271,813
Bad debt expense	6,254	7,960	-	-	14,214	-
Change in assets and liabilities						
Receivables, net	72,491	(99,441)	(905)	-	(27,855)	(347,004)
Inventories	15,386	(5,259)	-	-	10,127	(4,961)
Prepaid items	(32,828)	(49,951)	(1,923)	-	(84,702)	(569,673)
Accounts payable	(24,187)	(57,086)	3,496	-	(77,777)	97,426
Accrued liabilities	(26,964)	2,761	1,153	-	(23,050)	4,118
Due to other funds	-	-	-	-	-	50,556
Net cash provided by (used for) operating activities	<u>\$ 1,126,736</u>	<u>\$ 1,114,878</u>	<u>\$ 64,874</u>	<u>\$ -</u>	<u>\$ 2,306,488</u>	<u>\$ (158,047)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Fiduciary Funds
 June 30, 2010

	Agency Funds
ASSETS	
Cash and investments	\$ 725,123
Accounts receivable	1,867
Total assets	\$ 726,990
LIABILITIES	
Accounts payable	\$ 71,071
Due to other governmental units	396,210
Deposits held for others	259,709
Total liabilities	\$ 726,990

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2010

		ASSETS					
		Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total	
CURRENT ASSETS							
Cash and investments	\$	36,834	\$ 329,585	\$ 37,534	-	-	\$ 403,953
NONCURRENT ASSETS							
Capital assets, net							
Nondepreciable		400,000	-	-	-	-	400,000
Depreciable		2,661,658	-	-	-	-	2,661,658
Net capital assets		3,061,658	-	-	-	-	3,061,658
Bond issuance costs, net		95,673	-	-	-	-	95,673
Total noncurrent assets		3,157,331	-	-	-	-	3,157,331
Total assets		3,194,165	329,585	37,534	-	-	3,561,284
LIABILITIES AND NET ASSETS (DEFICITS)							
CURRENT LIABILITIES							
Accrued liabilities		32,800	8,800	-	-	-	41,600
Due to primary government		-	-	-	9,217	-	9,217
Bonds and other obligations, due within one year		80,000	240,000	-	-	-	320,000
Total current liabilities		112,800	248,800	-	9,217	-	370,817
NONCURRENT LIABILITIES							
Bonds and other obligations, less amounts due within one year		4,400,122	3,005,000	-	-	-	7,405,122
Total liabilities		4,512,922	3,253,800	-	9,217	-	7,775,939
NET ASSETS (DEFICITS)							
Invested in capital assets, net of related debt		(1,418,464)	-	-	-	-	(1,418,464)
Unrestricted		99,707	(2,924,215)	37,534	(9,217)	-	(2,796,191)
Total net assets (deficits)		\$ (1,318,757)	\$ (2,924,215)	\$ 37,534	\$ (9,217)	\$ -	\$ (4,214,655)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the six months ended June 30, 2010

	Program Revenue	Net (Expense) Revenue and Changes in Net Assets				
		Local Development Finance Authority III	Downtown Development Authority	Increment Finance Authority	Brownfield Redevelopment Authority	Total
<i>Functions/Programs</i>						
Local Development Finance Authority III						
Economic development	\$ 89,410	\$ (89,410)	\$ -	\$ -	\$ -	\$ (89,410)
Interest on long-term debt	98,698	(48,698)	-	-	-	(48,698)
Total Local Development Finance Authority III	188,108	(138,108)	-	-	-	(138,108)
Downtown Development Authority						
Interest on long-term debt	57,726	-	(57,726)	-	-	(57,726)
Tax Increment Finance Authority						
Economic development	25,000	-	-	(25,000)	-	(25,000)
Brownfield Redevelopment Authority						
Economic development	14,920	-	-	-	(14,920)	(14,920)
Total discretely presented component units	\$ 285,754	\$ (138,108)	\$ (57,726)	\$ (25,000)	\$ (14,920)	\$ (235,754)
General revenues						
Property taxes		71,360	327,373	40,634	15,917	455,284
Unrestricted investment income		133	1,212	111	-	1,456
Total general revenues		71,493	328,585	40,745	15,917	456,740
Change in net assets		(66,615)	270,859	15,745	997	220,986
Net assets (deficits) at January 1, 2010		(1,252,142)	(3,195,074)	21,789	(10,214)	(4,435,641)
Net assets (deficits) at June 30, 2010		\$ (1,318,757)	\$ (2,924,215)	\$ 37,534	\$ (9,217)	\$ (4,214,655)

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Effective January 1, 2010, the City changed its fiscal year end from December 31 to June 30.

Reporting Entity

The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City is a municipal corporation governed by an elected mayor and six-member City Commission and is administered by a city manager appointed by the City Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of property tax incremental revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The Authority's sole purpose is the collection of property tax incremental revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance. The TIFA is presented as a governmental fund type.

Local Development Finance Authority (LDFA). The City has created three separate local development finance authority districts under the aegis of the LDFA to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of property tax incremental revenues and the construction of public facilities within the districts. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance. The LDFA districts are presented as governmental fund types.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Reporting Entity—Continued

Discretely Presented Component Units—Continued

Brownfield Redevelopment Authority (BRA). The Authority’s sole purpose is the collection of property tax incremental revenues and promotion of environmental remediation (including issuance of debt) in designated brownfield areas. Members of the BRA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the BRA budget and must approve any debt issuance. The BRA is presented as a governmental fund type.

Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.

Related Organizations

The following organizations are related to the City’s financial reporting entity:

Muskegon Hospital Finance Authority. The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority’s sole purpose is to issue tax-exempt debt for the benefit of Mercy Health Partners Hospital which is located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of June 30, 2010, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

Muskegon Housing Commission. The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission’s main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety, and welfare. The Commission’s policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2009, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,850,136
Total liabilities	<u>(202,226)</u>
Total net assets	<u>\$ 5,647,910</u>
Total operating income	\$ 1,982,819
Total operating expenses	(2,025,888)
Total nonoperating revenues	52,921
Capital contributions	<u>452,531</u>
Change in net assets	<u>\$ 462,383</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements excepting agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Income taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Trunkline Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The City reports the following three major proprietary funds:

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

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

The Marina and Launch Ramp Fund accounts for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for internal engineering services for City projects; the purchase, operation, and depreciation of all City owned equipment; the payment of insurance claims and benefits; and the operation, maintenance, and depreciation of the City's public service building to other funds of the government on a cost reimbursement basis.

The Agency Funds are used to account for assets held by the City as an agent for another organization or individual.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

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

Receivables and Payables

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

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

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2009 state taxable value for real/personal property of the City totaled approximately \$728,408,000 of which approximately \$11,634,000 was captured by the component units. The ad valorem taxes levied consisted of 8.9, 2.1, and .068 mills for the City's general operating, sanitation, and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA, DDA, and BRA component units.

Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Restricted Assets

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the City.

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

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

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

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

Fund Equity

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

Use of Estimates

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

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

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

- a. On or before the second regular City Commission meeting in May, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain public comments.
- c. Not later than the last regular City Commission meeting in June, the budget is legally adopted by the City Commission.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission.

The appropriated budget is prepared by fund, function and department. The City Manager may transfer line-item budget amounts within departments. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level for the General Fund and the total expenditure or “fund” level for all other funds. The City Commission made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the six months ended June 30, 2010, actual expenditures exceeded appropriations for the street lighting department by \$38,615 in the General Fund. These over-expenditures were funded with available fund balance.

Fund Deficits

As of June 30, 2010, the BRA Fund had an unreserved fund deficit of \$9,217, the Engineering Services Fund had an unreserved fund deficit of \$102,318, and the HOME Fund had an unreserved fund deficit of \$241,404. The deficits will be eliminated through future operations.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2010, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
Money market funds	\$ 1,656,521	1.5	AAA	22.8 %
US Agency obligations	4,595,931	107.2	AAA	63.3
US Treasury notes	<u>1,004,450</u>	3.0	not rated	<u>13.9</u>
Total fair value	<u>\$ 7,256,902</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>68.6</u>		

Interest rate risk. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10% of the City's total portfolio must be in instruments maturing in 30 days or less and the weighted average maturity cannot be over three years. US Agency obligations, federal instrumentality securities and time certificates of deposit cannot have a final maturity exceeding five years, repurchase agreements cannot have a final maturity exceeding one year, commercial paper cannot have a final maturity exceeding 270 days and eligible bankers' acceptances cannot have a final maturity exceeding 180 days.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers acceptances and time certificates of deposit to 25% each of the total portfolio. More than 5 percent of the City's investments are in U.S. Agency obligations issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Federal Home Loan Bank. These investments are 10.41 percent, 25.23 percent and 27.69 percent, respectively, of the City's investments.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2010, the City's bank balance of \$13,364,343 was not exposed to custodial credit risk because it was fully insured. Effective July 1, 2010, the unlimited deposit insurance program that the City was part of expired leaving \$13,114,343 of the City's bank balance of \$13,364,343 exposed to custodial credit risk because it was uninsured and uncollateralized. The City's investment policy sets certain credit requirements that a bank must meet for the City to deposit funds in it.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has a custodial credit risk policy for investments that requires that all investments that are held with a third-party for safekeeping be in the City's name.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Commission action. At June 30, 2010, restricted cash and investments in the Water Fund of \$672,000 were restricted by bond ordinance.

NOTE D—CAPITAL ASSETS

Capital asset activity for the six months ended June 30, 2010 was as follows:

	Balance January 1, 2010	Additions	Deductions	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,424,174	\$ -	\$ -	\$ 12,424,174
Construction in progress	6,231,059	473,484	-	6,704,543
Total capital assets, not being depreciated	18,655,233	473,484	-	19,128,717
Capital assets, being depreciated:				
Land improvements	4,118,319	-	-	4,118,319
Leasehold improvements	343,614	-	-	343,614
Buildings and improvements	21,078,437	13,722	-	21,092,159
Furniture, vehicles and equipment	11,842,600	493,616	433,465	11,902,751
Infrastructure	70,890,542	-	9,329	70,881,213
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	113,850,413	507,338	442,794	113,914,957

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2010	Additions	Deductions	Balance June 30, 2010
Governmental activities—Continued				
Less accumulated depreciation:				
Land improvements	\$ 657,144	\$ 68,817	\$ -	\$ 725,961
Leasehold improvements	135,981	16,011	-	151,992
Buildings and improvements	13,345,141	220,814	-	13,565,955
Furniture, vehicles and equipment	9,484,710	295,874	433,173	9,347,411
Infrastructure	30,226,039	1,670,296	6,841	31,889,494
Shared improvements	1,917,973	139,422	-	2,057,395
Total accumulated depreciation	<u>55,766,988</u>	<u>2,411,234</u>	<u>440,014</u>	<u>57,738,208</u>
Total capital assets, being depreciated, net	<u>58,083,425</u>	<u>(1,903,896)</u>	<u>2,780</u>	<u>56,176,749</u>
Capital assets, net	<u>\$ 76,738,658</u>	<u>\$ (1,430,412)</u>	<u>\$ 2,780</u>	<u>\$ 75,305,466</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	2,445,555	249,995	369,756	2,325,794
Total capital assets, not being depreciated	2,587,805	249,995	369,756	2,468,044
Capital assets, being depreciated:				
Land improvements	1,888,965	-	-	1,888,965
Buildings and systems	84,524,108	369,756	-	84,893,864
Machinery and equipment	2,827,878	-	-	2,827,878
Total capital assets, being depreciated	89,240,951	369,756	-	89,610,707
Less accumulated depreciation:				
Land improvements	1,665,428	10,612	-	1,676,040
Buildings and systems	29,280,614	1,132,238	-	30,412,852
Machinery and equipment	970,825	160,160	-	1,130,985
Total accumulated depreciation	<u>31,916,867</u>	<u>1,303,010</u>	<u>-</u>	<u>33,219,877</u>
Total capital assets, being depreciated, net	<u>57,324,084</u>	<u>(933,254)</u>	<u>-</u>	<u>56,390,830</u>
Capital assets, net	<u>\$ 59,911,889</u>	<u>\$ (683,259)</u>	<u>\$ 369,756</u>	<u>\$ 58,858,874</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$	26,227
Public safety		53,268
Public works		37,725
Highways, streets and bridges		1,850,168
Community and economic development		37,859
Culture and recreation		124,681
General administration		9,493
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets		<u>271,813</u>
	\$	<u><u>2,411,234</u></u>

Business-type activities:

Water	\$	1,044,175
Sewer		201,736
Marina and Launch Ramp		<u>57,099</u>
	\$	<u><u>1,303,010</u></u>

	Balance January 1, 2010	Additions	Deductions	Balance June 30, 2010
Component units:				
Capital assets, not being depreciated:				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Capital assets, being depreciated:				
Building and improvements	3,798,258	-	-	3,798,258
Less accumulated depreciation:				
Buildings and improvements	<u>1,050,276</u>	<u>86,324</u>	<u>-</u>	<u>1,136,600</u>
Total capital assets, being depreciated, net	<u>2,747,982</u>	<u>(86,324)</u>	<u>-</u>	<u>2,661,658</u>
Capital assets, net	<u><u>\$ 3,147,982</u></u>	<u><u>\$ (86,324)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,061,658</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the six months ended June 30, 2010 was as follows:

	Balance January 1, 2010	Additions	Deductions	Balance June 30, 2010
Governmental activities:				
Bond issuance costs	\$ 160,106	\$ -	\$ -	\$ 160,106
Less accumulated amortization	<u>35,141</u>	<u>3,815</u>	<u>-</u>	<u>38,956</u>
Bond issuance costs, net	<u>\$ 124,965</u>	<u>\$ (3,815)</u>	<u>\$ -</u>	<u>\$ 121,150</u>
Business-type activities:				
Bond issuance costs	\$ 270,814	\$ 134,250	\$ 270,814	\$ 134,250
Less accumulated amortization	<u>211,662</u>	<u>59,152</u>	<u>270,814</u>	<u>-</u>
Bond issuance costs, net	<u>\$ 59,152</u>	<u>\$ 75,098</u>	<u>\$ -</u>	<u>\$ 134,250</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental Activities:		
Interest on long-term debt		\$ <u>3,815</u>
Business-type Activities:		
Water		\$ <u>59,152</u>

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2010 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	Major Street and Trunkline Fund	\$ 102,528
Budget Stabilization Fund	Neighborhood Stabilization Fund	312,895
Budget Stabilization Fund	Lead Abatement Fund	32,306
Budget Stabilization Fund	Community Development Block Grant Fund	378,292
Budget Stabilization Fund	HOME Rehabilitation Fund	297,901
Budget Stabilization Fund	Engineering Services Fund	98,892
Lead Abatement Fund	HOME Rehabilitation Fund	<u>19,102</u>
		<u>\$ 1,241,916</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

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

The BRA component unit owes the Budget Stabilization Fund \$9,217 as a result of having a negative position in the City’s cash and investment pool.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 2,188	Nonmajor Governmental Funds	
		Cemetery Fund	\$ 2,188
Marina and Launch Ramp	3,760	General Fund	3,760
Nonmajor Governmental Funds		General Fund	240,000
Local Street Fund	<u>340,000</u>	Major Street and Trunkline Fund	<u>100,000</u>
	340,000		340,000
Internal Service Fund		General Fund	14,023
General Insurance Fund	<u>14,023</u>		
	<u>\$ 359,971</u>		<u>\$ 359,971</u>

The General Fund and Major Street and Trunkline Fund transferred funds to the Local Street Fund to finance capital improvements. Other transfers between funds are made to meet grant matching requirements or other operational needs.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE G—DEFERRED REVENUE

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

	<u>Unavailable</u>	<u>Unearned</u>
Receivables	\$ 61,300	\$ 481,383
Special assessments	1,392,704	-
Total deferred revenue for governmental funds	\$ 1,454,004	\$ 481,383

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the six months ended June 30, 2010.

	Balance January 1, 2010	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2010	Due within one year
Governmental activities:					
General obligation debt	\$ 5,290,324	\$ -	\$ (479)	\$ 5,290,803	\$ 70,000
Intergovernmental					
contractual obligations	1,120,000	-	54,572	1,065,428	65,600
Special assessment obligations	995,000	-	190,000	805,000	120,000
Installment purchase					
agreement	393,499	-	58,894	334,605	61,400
Compensated absences	1,304,331	626,362	669,793	1,260,900	210,300
Governmental activity long-term liabilities	\$ 9,103,154	\$ 626,362	\$ 972,780	\$ 8,756,736	\$ 527,300

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance January 1, 2010	Additions	Reductions	Balance June 30, 2010	Due within one year
Business-type activities:					
Revenue obligations	\$ 18,094,535	\$ 6,183,136	\$ 6,524,535	\$ 17,753,136	\$ 1,195,000
Compensated absences	<u>193,196</u>	<u>51,964</u>	<u>73,268</u>	<u>171,892</u>	<u>28,100</u>
Business-type activity long-term liability:	<u>\$ 18,287,731</u>	<u>\$ 6,235,100</u>	<u>\$ 6,597,803</u>	<u>\$ 17,925,028</u>	<u>\$ 1,223,100</u>
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	<u>6,954,848</u>	<u>-</u>	<u>229,726</u>	<u>6,725,122</u>	<u>320,000</u>
Component unit long- term liabilities	<u>\$ 7,954,848</u>	<u>\$ -</u>	<u>\$ 229,726</u>	<u>\$ 7,725,122</u>	<u>\$ 320,000</u>
Governmental activities:					
General obligation debt:					
\$5,400,000 Limited Tax General Obligation Bonds of 2006 payable in annual installments of \$70,000 to \$350,000 through October 2032; interest at 4% to 4.2%					\$ 5,305,000
Less bond discount					(14,197)
Intergovernmental contractual obligations:					
\$700,000 Non-interest bearing State of Michigan urban land assembly loan of 2005 payable in annual installments of \$20,000 to \$120,000 through September 2015					620,000
\$500,000 State of Michigan Brownfield Redevelopment loan of 2008 payable in annual installments of \$54,572 through March 2019; including interest at 2%					445,428

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Special assessment obligations:

\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$120,000 to \$150,000 through June 2016; interest at 3.5% to 4.05%	\$ 805,000
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Installment purchase agreement:

\$605,824 Note payable to bank in annual installments of \$61,420 to \$72,658 through April 2015; interest at 3.83%	334,605
---	---------

Compensated absences

7,495,836
1,260,900
\$ 8,756,736

Business-type activities:

Revenue obligations:

\$5,995,000 Water supply system refunding bonds of 2010 payable in annual installments of \$580,000 to \$770,000 through May 2019; interest at 2.00% to 4.25%	\$ 5,995,000
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Add bond premium	188,136
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\$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$615,000 to \$840,000 through October 2025; interest at 2.13%	11,570,000
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Compensated absences	17,753,136
----------------------	------------

171,892
\$ 17,925,028

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:

Revenue obligations:

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

\$4,005,000 Downtown Development Authority tax increment refunding bonds of 2001 payable in annual installments of \$240,000 to \$335,000 through June 2018; interest at 4.35% to 5%	2,245,000
--	-----------

\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 payable in annual installments of \$80,000 to \$400,000 through November 2025; interest at 3.88% to 4.85%	4,485,000
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Less bond discount	<u>(4,878)</u>
	<u><u>\$ 7,725,122</u></u>

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

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

On April 1, 2010, the City issued \$5,995,000 of Water Supply System Refunding Bonds of 2010 to advance refund the outstanding balance of the Water Supply System Bonds of 1993 and 1999. The proceeds from the refunding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for principal redemption and interest on the Water Supply System Bonds of 1993 and 1999 through May 2019. As a result, the Water Supply System Bonds of 1993 and 1999 are considered to be defeased and the liability for those bonds has been removed from long-term obligations.

The City refunded the Water Supply System Revenue Bonds of 1993 and 1999 to reduce its total debt service payments over the next 10 years by \$389,669 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$334,200.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The City has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The City's portion of the debt on June 30, 2010 was approximately \$5,050,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE H—LONG-TERM DEBT—Continued

The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. If LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall, up to \$75,000 annually. This commitment extends through December 31, 2016.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2010.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2010 follows:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 317,083	\$ 266,574	\$ 1,195,000	\$ 451,323	\$ 320,000	\$ 301,376
2012	425,632	256,308	1,230,000	410,188	325,000	287,835
2013	434,311	245,499	1,250,000	384,694	440,000	271,783
2014	443,127	234,250	1,295,000	352,635	510,000	251,673
2015	457,085	222,548	1,330,000	320,857	585,000	228,261
2016-2020	1,052,795	983,793	6,465,000	1,001,075	3,740,000	725,384
2021-2025	1,595,000	735,225	3,960,000	303,133	1,495,000	245,571
2026-2030	1,735,000	398,263	840,000	8,925	315,000	7,639
2031-2033	1,050,000	66,150	-	-	-	-
	<u>\$ 7,510,033</u>	<u>\$ 3,408,610</u>	<u>\$ 17,565,000</u>	<u>\$ 3,232,830</u>	<u>\$ 7,730,000</u>	<u>\$ 2,319,522</u>

Annual debt service requirements to maturity by type of debt as of June 30, 2010 follows:

Year ending June 30,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2011	\$ 283,945	\$ 621,376	\$ 1,646,323	\$ -
2012	281,145	612,835	1,640,188	-
2013	278,345	711,783	1,634,694	-
2014	275,545	761,673	1,647,635	-
2015	272,745	813,261	1,650,857	-
2016-2020	1,542,225	3,465,384	7,466,075	1,000,000
2021-2025	2,330,225	1,740,571	4,263,133	-
2026-2030	2,133,263	322,639	848,925	-
2031-2033	1,116,150	-	-	-
	<u>\$ 8,513,588</u>	<u>\$ 9,049,522</u>	<u>\$ 20,797,830</u>	<u>\$ 1,000,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE H—LONG-TERM DEBT—Continued

Year ending June 30,	Intergovernmental Governmental activities	Installment Purchase Agreement Governmental activities	Special Assessment Governmental activities
2011	\$ 74,572	\$ 74,235	\$ 150,905
2012	174,572	74,518	151,705
2013	174,572	74,813	152,080
2014	174,572	75,120	152,140
2015	174,572	75,441	156,875
2016-2020	338,288	-	156,075
2021-2025	-	-	-
2026-2030	-	-	-
2031-2033	-	-	-
	<u>\$ 1,111,148</u>	<u>\$ 374,127</u>	<u>\$ 919,780</u>

NOTE I—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of June 30, 2010 were as follows:

General Fund

Designated for contribution to MERS	\$ 1,000,000
Designated for early retirement of Urban Land Assembly loan	620,000
Designated for early retirement of installment purchase agreement	334,605
Designated for transfer to Sidewalk Fund	<u>100,000</u>
	2,054,605

Public Improvement Fund

Designated for fire equipment replacement	211,631
Designated for Pere Marquette Park improvements	<u>35,808</u>
	<u>247,439</u>
	<u>\$ 2,302,044</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE J—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. A \$150,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2010 and 2009 were as follows:

Year ended	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
June 30, 2010*	\$ 186,566	\$ 73,015	\$ 81,029	\$ 178,552
December 31, 2010	180,353	138,790	132,577	186,566

* Six month fiscal period

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of \$350,000 per covered individual's lifetime. As of June 30, 2010, the claims liability including incurred but not reported claims was \$7,040. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2010 and 2009 were as follows:

Year ended	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
June 30, 2010*	\$ 50,267	\$ 410,382	\$ 453,609	\$ 7,040
December 31, 2010	18,875	1,165,505	1,134,113	50,267

* Six month fiscal period

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE J—OTHER INFORMATION—Continued

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2012 with the option by the tenant to renew the term of the lease for five successive periods of five years each. The City received rental income of \$20,879 for the six months ended June 30, 2010. The future minimum rental income for this lease is as follows:

Year ending June 30,	Amount
2011	\$ 34,227
2012	33,889
	\$ 68,116

NOTE K—PENSION PLANS

Defined Benefit Pension Plan

Plan Description. The City has an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon
 933 Terrace Street
 Muskegon, MI 49443

Funding Policy. City employees are required to contribute 5 to 6 percent to the Plan depending on employee contract. The City is required to contribute at an actuarially-determined rate depending upon employee group from 5.37 to 18.25 percent of annual covered payroll depending on the plan. The contributions requirements of plan members and the City are established and may be amended by MERS.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE K—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Annual Pension Cost. For the six months ended June 30, 2010, the City’s annual pension cost was approximately \$605,000 was equal to the City’s required and actual contribution.

Trend Information

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2008	\$ 1,167,000	100 %	\$ -
December 31, 2009	888,000	100	-
June 30, 2010*	605,000	100	-

* Six month fiscal period

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 2 percent to 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 7 years which will be reduced by two years in the next valuation until reaching 5 years after which the 5 year period will be reestablished with each annual actuarial valuation.

Funding Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was 99 percent funded. The actuarial accrued liability for benefits was approximately \$87,395,000, and the actuarial value of assets was approximately \$86,682,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$713,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$12,614,000, and the ratio of the UAAL to the covered payroll was 6 percent.

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE K—PENSION PLANS—Continued

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS and administered by the ICMA Retirement Corporation, an independent third party. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments. Depending on employee group, the Plan covers all City employees hired after January 2005 to July 2006 and those hired earlier who elected to convert from the defined benefit plan. The authority for establishing or amending the plan's provisions and for establishing or amending contribution requirements rests with the City Commission as determined by negotiated labor contracts. The City is required to contribute 3 percent to 10 percent of a qualified employees' annual compensation each year depending on employee group. Qualified employees are required to contribute 0 percent to 6 percent of annual compensation depending on employee group. For the six months ended June 30, 2010, City and employee contributions were approximately \$57,000 and \$32,000, respectively.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided by Internal Revenue Code Section 401(f).

NOTE L—OTHER POST-EMPLOYMENT BENEFITS

Plan Description. The City has a retiree healthcare funding vehicle administered Municipal Employees Retirement System (MERS), an agent multiple-employer postemployment healthcare plan (OPEB). The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon
933 Terrace Street
Muskegon, MI 49443

Funding Policy. Plan members are not required to contribute to the Plan. The City is required to contribute the annual required contribution of the employer (ARC) at an actuarially-determined rate which varies upon employee group from 3.4 to 12.5 percent of covered wages. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The contribution requirements of plan members and the City are established and may be amended by MERS.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE L—OTHER POST-EMPLOYMENT BENEFITS—Continued

Annual OPEB Cost. For the six months ended June 30, 2010, the City's OPEB cost (expense) of approximately \$530,000 was equal to the City's ARC and actual contribution.

Trend Information

Period ended	Approximate Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net ARC Obligation
December 31, 2008	\$ 1,476,000	100 %	\$ -
December 31, 2009	1,698,000	100	-
June 30, 2010*	530,000	100	-

* Six month fiscal period

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates assume include a 4.5 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 is 28 years.

Funded Status and Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was 55.2 percent funded. The actuarial accrued liability for benefits was approximately \$24,024,000, and the actuarial value of assets was approximately \$13,260,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$10,764,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,293,000, and the ratio of the UAAL to the covered payroll was 81 percent.

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

NOTE M—SUBSEQUENT EVENTS

Subsequent to year-end, the City approved contracts for parking lot improvements, vehicle purchases and improvements to the Arena Annex for approximately \$59,000, \$268,000 and \$56,000, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010		Variance with final budget- positive (negative)	2009
	Budgeted amounts			
	Original	Final		
REVENUES				
Taxes				
City income tax	\$ 6,200,000	\$ 3,000,000	\$ 3,368,057	\$ 6,482,290
Property taxes	8,034,944	7,900,000	7,927,575	7,882,325
Industrial facilities taxes	183,072	186,322	468,369	216,962
Payments in lieu of taxes	91,000	91,000	91,181	91,435
Delinquent chargeback collected	5,000	5,000	181	-
Total taxes	14,514,016	11,182,322	11,855,182	14,673,012
Licenses and permits				
Business licenses	32,500	32,500	25,934	31,573
Liquor licenses	59,000	18,000	22,739	54,235
Cable TV fees	310,000	155,000	178,239	321,852
Rental property registration	100,000	15,000	47,367	112,110
Burial permits	110,000	55,000	39,624	105,616
Building permits	225,000	150,000	135,155	232,797
Electrical permits	85,000	40,000	43,576	73,940
Plumbing permits	35,000	20,000	20,254	28,966
Mechanical permits	50,000	30,000	26,204	45,452
Cat licenses	-	-	-	2,390
Vacant building fees	25,000	27,000	45,070	23,750
Total licenses and permits	1,031,500	542,500	584,162	1,032,681
Intergovernmental revenues				
Federal grants	40,000	91,465	122,965	64,613
State				
Grants	28,000	-	7,805	16,363
State shared revenue	4,071,393	1,760,021	1,832,066	3,841,922
Total intergovernmental revenues - State	4,099,393	1,760,021	1,839,871	3,858,285
Local	50,000	25,000	25,000	60,347

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010			2009	
	Budgeted amounts		Actual	Variance with final budget- positive (negative)	Actual
	Original	Final			
Charges for services	\$	\$	\$	\$	\$
Tax administration fees	306,400	192,744	194,131	1,387	301,784
Utility administration fees	225,000	112,500	110,000	(2,500)	200,000
Reimbursement for elections	-	-	79	79	14,409
Indirect cost reimbursements	1,171,979	585,990	582,084	(3,906)	1,140,720
Site plan review fee	4,000	1,000	1,500	500	3,400
Sale of cemetery lots	27,400	12,000	12,914	914	24,895
Police miscellaneous	80,000	53,000	31,375	(21,625)	82,882
Police impound fees	40,000	20,000	23,300	3,300	43,629
Landlord's alert fee	300	150	155	5	175
Fire protection-state property	99,000	-	35,212	35,212	110,079
Zoning fees	8,000	4,000	3,290	(710)	5,697
Clerk fees	3,500	1,500	197	(1,303)	1,098
Clerk fees - passport fees	5,000	3,000	3,555	555	3,827
Tax abatement application fees	10,000	-	-	-	2,211
Treasurer fees	60,000	25,000	62,523	37,523	61,033
False alarm fees	10,000	4,000	6,125	2,125	10,500
Miscellaneous cemetery income	22,000	11,000	6,571	(4,429)	18,108
Senior transit program fees	9,000	4,500	5,082	582	9,572
Fire miscellaneous	3,000	1,000	560	(440)	1,889
Sanitation stickers	80,000	40,000	38,809	(1,191)	83,254
Lot cleanup fees	70,000	25,000	18,349	(6,651)	42,244
Reimbursements - lot mowing and demolitions	70,000	25,000	20,102	(4,898)	59,447
Special events reimbursements	100,000	25,000	30,546	5,546	164,966
Recreation program fees	45,000	20,000	19,754	(246)	50,642
Total charges for services	2,449,579	1,166,384	1,206,213	39,829	2,436,461

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010			2009	
	Budgeted amounts		Actual	Variance with final budget- positive (negative)	Actual
	Original	Final			
Fines and forfeitures					
Income tax - penalty and interest	\$ 225,000	\$ 90,000	\$ 109,441	\$ 19,441	\$ 219,490
Late fees on current taxes	40,000	30,000	42,766	12,766	36,585
Interest on late invoices	2,000	1,000	247	(753)	1,717
Parking fines	100,000	50,000	71,160	21,160	111,022
Court fines	170,000	75,000	72,929	(2,071)	154,801
Total fines and forfeitures	537,000	246,000	296,543	50,543	523,615
Interest and rental income					
Investment earnings	84,000	15,000	(2,349)	(17,349)	47,181
Flea market	29,000	10,000	11,346	1,346	27,262
Farmers' market	35,000	12,000	18,484	6,484	41,629
City right of way rental	6,800	6,800	6,800	-	6,881
Fire station lease - Central Dispatch	42,000	21,000	20,879	(121)	44,166
Parking rentals	-	-	-	-	1,400
Great Lakes Naval Memorial lease	15,000	7,500	-	(7,500)	4,958
McGraft park rentals	45,000	10,000	13,844	3,844	61,585
Other park rentals	30,000	21,200	23,334	2,134	35,330
Total interest and rental income	286,800	103,500	92,338	(11,162)	270,392
Other					
Sale of land and assets	1,000	1,000	500	(500)	-
Police sale and auction proceeds	-	-	1,823	1,823	503
CDBG program reimbursements	335,000	50,000	48,030	(1,970)	386,164
Fisherman's Landing reimbursement	14,500	-	-	-	-
Sanitation reimbursements	-	43,030	43,030	-	-
Contributions	14,000	11,000	19,740	8,740	21,561
Contribution - Veteran's Park maintenance	18,500	-	-	-	15,757
Community Foundation for Muskegon County	1,500	500	2,394	1,894	7,920
Miscellaneous reimbursements	1,000	500	-	(500)	-
Miscellaneous and sundry	25,000	10,000	2,786	(7,214)	120,940
Total other	410,500	116,030	118,303	2,273	552,845
Total revenues	23,418,788	15,233,222	16,140,577	907,355	23,472,251

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010		2009	
	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
EXPENDITURES				
Current				
Public representation services				
City commission	\$ 86,213	\$ 46,467	\$ 44,724	\$ 1,743
City promotions and public relations	11,350	5,200	3,044	2,156
City manager	265,114	146,450	142,878	3,572
Contributions to outside agencies	155,824	99,695	98,026	1,669
City attorney	352,508	177,254	160,031	17,223
Total public representation services	871,009	475,066	448,703	26,363
Administrative services				
City clerk	303,793	169,540	123,748	45,792
Civil service	189,807	105,750	91,460	14,290
Julia Hackley internships	-	-	-	-
Affirmative action	82,728	45,714	39,958	5,756
Total administrative services	576,328	321,004	255,166	65,838
Financial services				
Finance administration	436,494	233,805	233,852	(47)
Assessing	465,665	232,833	240,136	(7,303)
Arena administration	235,000	105,000	101,867	3,133
Income tax administration	419,527	235,050	217,821	17,229
Information systems	386,304	217,639	196,816	20,823
City treasurer	452,194	255,678	250,938	4,740
Total financial services	2,395,184	1,280,005	1,241,430	38,575
Public safety				
Police department	8,462,045	4,706,676	4,338,742	367,934
Fire department	3,608,449	2,020,948	1,860,345	160,603
Fire safety inspections	757,085	428,425	372,009	56,416
Total public safety	12,827,579	7,156,049	6,571,096	584,953

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010			2009	
	Budgeted amounts		Actual	Variance with final budget- positive (negative)	Actual
	Original	Final			
Public works					
Street lighting	\$ 635,000	\$ 390,000	\$ 428,615	\$ (38,615)	\$ 735,479
Community event support	31,314	24,814	14,560	10,254	40,596
Senior citizen transit	68,103	37,249	31,899	5,350	62,903
General sanitation	1,603,347	944,174	789,587	154,587	1,624,899
Recycling	-	-	-	-	92,784
Storm water management	17,786	10,000	4,000	6,000	16,991
City hall maintenance	311,086	204,640	136,435	68,205	286,858
Cemeteries maintenance	456,194	236,514	183,994	52,520	482,352
Total public works	3,122,830	1,847,391	1,589,090	258,301	3,342,862
Community and economic development					
Planning, zoning and economic development	449,129	207,316	203,414	3,902	513,812
Environmental services	316,359	172,777	166,120	6,657	306,083
Edison Landing subsidy	100,000	50,000	50,000	-	120,000
Total community and economic development	865,488	430,093	419,534	10,559	939,895
Culture and recreation					
Parks maintenance	1,315,021	711,490	495,147	216,343	1,264,433
McGraft park maintenance	53,946	31,600	14,396	17,204	65,522
General and inner city recreation programs	255,755	123,450	101,357	22,093	325,116
Graffiti removal	4,861	2,000	2,454	(454)	535
Parking operations	3,054	2,500	2,445	55	5,116
Farmers' market and flea market	51,997	29,076	20,853	8,223	49,986
Total culture and recreation	1,684,634	900,116	636,652	263,464	1,710,708
Other governmental functions					
Insurance premiums	309,642	286,933	133,527	153,406	311,636
Other	300,000	400,000	67,096	332,904	126,656
Total other governmental functions	609,642	686,933	200,623	486,310	438,292

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the six months ended June 30, 2010
 (with comparative actual amounts for the year ended December 31, 2009)

	2010			2009	
	Budgeted amounts Original	Final	Actual	Variance with final budget- positive (negative)	Actual
Debt service					
Principal	\$ -	-	-	\$ -	\$ 50,000
Interest and fees	285,345	109,174	109,174	-	220,063
Total debt service	285,345	109,174	109,174	-	270,063
Capital outlay	20,000	77,000	13,722	63,278	167,239
Total expenditures	23,258,039	13,282,831	11,485,190	1,797,641	24,312,036
Excess of revenues over (under) expenditures	160,749	1,950,391	4,655,387	2,704,996	(839,785)
OTHER FINANCING SOURCES (USES)					
Transfers in	550,000	25,000	2,188	(22,812)	632,768
Transfers out	(666,548)	(154,023)	(257,783)	(103,760)	(538,046)
Total other financing sources (uses)	(116,548)	(129,023)	(255,595)	(126,572)	94,722
Net change in fund balance	\$ 44,201	\$ 1,821,368	4,399,792	\$ 2,578,424	(745,063)
Fund balance at beginning of year			1,638,662		2,383,725
Fund balance at end of year			\$ 6,038,454		\$ 1,638,662

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

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Major Street and Trunkline Fund
For the six months ended June 30, 2010

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal	\$ 866,000	\$ 150,250	\$ 9,443	\$ (140,807)
State	2,686,841	1,343,420	1,280,365	(63,055)
Charges for services	75,000	30,000	7,961	(22,039)
Investment earnings	25,000	5,000	44,302	39,302
Other	200,000	25,000	11,211	(13,789)
Total revenues	3,852,841	1,553,670	1,353,282	(200,388)
EXPENDITURES				
Current				
Highways, streets and bridges	3,575,085	1,516,725	1,166,971	349,754
Total expenditures	3,575,085	1,516,725	1,166,971	349,754
Excess of revenues over expenditures	277,756	36,945	186,311	149,366
OTHER FINANCING USES				
Transfers out	(200,000)	(100,000)	(100,000)	-
Net change in fund balance	\$ 77,756	\$ (63,055)	86,311	\$ 149,366
Fund balance at January 1, 2010			272,846	
Fund balance at June 30, 2010			\$ 359,157	

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

City of Muskegon
 Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS
 For the six months ended June 30, 2010

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

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07	\$ 86,157	\$ 83,118	\$ (3,039)	104 %	\$ 12,684	(24) %
12/31/08	86,928	86,794	(134)	100	13,107	(1)
12/31/09	86,682	87,395	713	99	12,614	6

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

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07	\$ 13,831	\$ 29,722	\$ 15,891	46.5 %	\$ 13,290	120 %
12/31/09	13,260	24,024	10,764	55.2	13,293	81

Additional actuarial data is not available from MERS and will be provided in subsequent years.

OTHER SUPPLEMENTAL INFORMATION

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Local Street – to account for gas and weight allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

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

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

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

Tree Replacement – to account for contributions and other revenues earmarked for tree replacement throughout the City.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Public Improvement – to account for grants, private contributions, sale of property and other resources used to finance various capital projects.

Sidewalk Replacement – to account for resources allocated for a multi-year city-wide sidewalk replacement program.

Michcon Remediation – to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

EDC Revolving Loan – to account for funds received upon repayment of Urban Development Action Grant loans and subsequently reloaned to small business enterprises.

Community Development Block Grant – to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS—CONTINUED

Capital Projects Funds—Continued

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

Arena Capital Improvements – to account for ticket revenue collections earmarked for large capital improvements and repairs to the L.C. Walker Arena.

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

Neighborhood Stabilization Fund – to account for grant revenues received from the US Department of Housing and Urban Development for the purpose of stabilizing neighborhoods that have suffered from foreclosure and abandonment.

Economic Development - Sappi Fund – to account for funds contributed to the City for economic redevelopment of vacated industrial property sites.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the General Fund to partially cover cemetery care expenses.

City of Muskegon
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2010

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
ASSETS				
Cash and investments	\$ 4,624,184	\$ 544,746	\$ 2,760,555	\$ 1,318,883
Receivables				
Accounts and loans (net of allowance for uncollectibles)	723,615	2,207	716,768	4,640
Special assessments	679,720	473,064	206,656	-
Due from other governmental units	1,116,990	100,806	1,016,184	-
Due from other funds	1,241,916	1,222,814	19,102	-
Due from component units	9,217	9,217	-	-
Prepaid items	6,673	6,673	-	-
Total assets	<u>\$ 8,402,315</u>	<u>\$ 2,359,527</u>	<u>\$ 4,719,265</u>	<u>\$ 1,323,523</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 464,916	\$ 8,386	\$ 456,530	\$ -
Accrued liabilities	6,613	3,484	3,129	-
Due to other funds	1,040,496	-	1,040,496	-
Deferred revenue	1,176,103	509,811	666,292	-
Total liabilities	<u>2,688,128</u>	<u>521,681</u>	<u>2,166,447</u>	<u>-</u>
Fund balances				
Reserved for:				
Prepaid items	6,673	6,673	-	-
Long-term loans receivable	293,100	-	293,100	-
Capital projects	2,253,683	-	2,253,683	-
Perpetual care	1,306,544	-	-	1,306,544
Unreserved				
Designated, reported in capital projects funds	247,439	-	247,439	-
Undesignated, reported in				
Special revenue funds	1,831,173	1,831,173	-	-
Capital projects funds	(241,404)	-	(241,404)	-
Permanent funds	16,979	-	-	16,979
Total fund balances	<u>5,714,187</u>	<u>1,837,846</u>	<u>2,552,818</u>	<u>1,323,523</u>
Total liabilities and fund balances	<u>\$ 8,402,315</u>	<u>\$ 2,359,527</u>	<u>\$ 4,719,265</u>	<u>\$ 1,323,523</u>

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

Other Governmental Funds
 For the six months ended June 30, 2010

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 848,127	\$ -	\$ 848,127	\$ -
State	659,723	460,868	198,855	-
Charges for services	124,020	41,285	70,990	11,745
Fines and forfeitures	500	500	-	-
Investment earnings	57,233	22,921	30,759	3,553
Other	564,303	31,887	532,416	-
Total revenues	2,253,906	557,461	1,681,147	15,298
EXPENDITURES				
Current				
Public safety	7,639	7,639	-	-
Highways, streets and bridges	850,168	850,168	-	-
Culture and recreation	3,200	3,200	-	-
Debt service				
Principal	303,466	-	303,466	-
Interest and fees	26,839	-	26,839	-
Capital outlay	1,732,699	-	1,732,699	-
Total expenditures	2,924,011	861,007	2,063,004	-
Excess of revenues over (under) expenditures	(670,105)	(303,546)	(381,857)	15,298
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	75,465	-	75,465	-
Transfers in	340,000	340,000	-	-
Transfers out	(2,188)	-	-	(2,188)
Total other financing sources (uses)	413,277	340,000	75,465	(2,188)
Net change in fund balances	(256,828)	36,454	(306,392)	13,110
Fund balances at January 1, 2010	5,971,015	1,801,392	2,859,210	1,310,413
Fund balances at June 30, 2010	\$ 5,714,187	\$ 1,837,846	\$ 2,552,818	\$ 1,323,523

City of Muskegon
COMBINING BALANCE SHEET
 Other Special Revenue Funds
 June 30, 2010

	Total other special revenue funds	Local Street	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
ASSETS						
Cash and investments	\$ 544,746	\$ 119,411	\$ 134,116	\$ 267,969	\$ 17,814	\$ 5,436
Receivables (net of allowance for uncollectibles)						
Accounts	2,207	2,207	-	-	-	-
Special assessments	473,064	473,064	-	-	-	-
Due from other governmental units	100,806	100,806	-	-	-	-
Due from other funds	1,222,814	-	-	1,222,814	-	-
Due from component units	9,217	-	-	9,217	-	-
Prepaid items	6,673	6,673	-	-	-	-
Total assets	\$ 2,359,527	\$ 702,161	\$ 134,116	\$ 1,500,000	\$ 17,814	\$ 5,436
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 8,386	\$ 8,386	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	3,484	3,484	-	-	-	-
Deferred revenue	509,811	509,811	-	-	-	-
Total liabilities	521,681	521,681	-	-	-	-
Fund balances						
Reserved for prepaid items	6,673	6,673	-	-	-	-
Unreserved	1,831,173	173,807	134,116	1,500,000	17,814	5,436
Total fund balances	1,837,846	180,480	134,116	1,500,000	17,814	5,436
Total liabilities and fund balances	\$ 2,359,527	\$ 702,161	\$ 134,116	\$ 1,500,000	\$ 17,814	\$ 5,436

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Special Revenue Funds
 For the six months ended June 30, 2010

	Total other special revenue funds	Local Street	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
REVENUES						
Intergovernmental revenues - State	\$ 460,868	\$ 460,868	-	-	-	-
Charges for services	41,285	41,285	-	-	-	-
Fines and forfeitures	500	-	500	-	-	-
Investment earnings	22,921	22,171	615	-	89	46
Other	31,887	31,887	-	-	-	-
Total revenues	557,461	556,211	1,115	-	89	46
EXPENDITURES						
Current						
Public safety	7,639	-	7,639	-	-	-
Highways, streets and bridges	850,168	850,168	-	-	-	-
Culture and recreation	3,200	-	-	-	-	3,200
Total expenditures	861,007	850,168	7,639	-	-	3,200
Excess of revenues over (under) expenditures	(303,546)	(293,957)	(6,524)	-	89	(3,154)
OTHER FINANCING SOURCES						
Transfers in	340,000	340,000	-	-	-	-
Net change in fund balances	36,454	46,043	(6,524)	-	89	(3,154)
Fund balances at January 1, 2010	1,801,392	134,437	140,640	1,500,000	17,725	8,590
Fund balances at June 30, 2010	\$ 1,837,846	\$ 180,480	\$ 134,116	\$ 1,500,000	\$ 17,814	\$ 5,436

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 Other Special Revenue Funds
 For the six months ended June 30, 2010

	Local Street		Criminal Forfeitures		Budget Stabilization				
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES									
Intergovernmental revenues - State	\$ 545,590	\$ 460,868	\$ (84,722)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	41,285	41,285	-	-	-	-	-	-
Fines and forfeitures	-	-	-	5,000	500	(4,500)	-	-	-
Investment earnings	2,000	22,171	20,171	250	615	365	-	-	-
Other	9,500	31,887	22,387	-	-	-	-	-	-
Total revenues	557,090	556,211	(879)	5,250	1,115	(4,135)	-	-	-
EXPENDITURES									
Current									
Public safety	-	-	-	22,500	7,639	14,861	-	-	-
Highways, streets and bridges	970,358	850,168	120,190	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Total expenditures	970,358	850,168	120,190	22,500	7,639	14,861	-	-	-
Excess of revenues over (under) expenditures	(413,268)	(293,957)	119,311	(17,250)	(6,524)	10,726	-	-	-
OTHER FINANCING SOURCES									
Transfers in	340,000	340,000	-	-	-	-	-	-	-
Net change in fund balances	\$ (75,268)	\$ 46,043	\$ 119,311	\$ (17,250)	\$ (6,524)	\$ 10,726	\$ -	\$ -	\$ -
Fund balances at January 1, 2010		134,437			140,640			1,500,000	
Fund balances at June 30, 2010	\$ 180,480			\$ 134,116		\$ 1,500,000			\$ 1,500,000

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 Other Special Revenue Funds
 For the six months ended June 30, 2010

	Farmers' Market Improvement			Tree Replacement		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES						
Intergovernmental revenues - State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	20	-	(20)
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	100	89	(11)	50	46	(4)
Other	-	-	-	-	-	-
Total revenues	100	89	(11)	70	46	(24)
EXPENDITURES						
Current						
Public safety	-	-	-	-	-	-
Highways, streets and bridges	-	-	-	-	-	-
Culture and recreation	5,000	-	5,000	1,850	3,200	(1,350)
Total expenditures	5,000	-	5,000	1,850	3,200	(1,350)
Excess of revenues over (under) expenditures	(4,900)	89	4,989	(1,780)	(3,154)	(1,374)
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	-	-
Net change in fund balances	<u>(4,900)</u>	89	<u>4,989</u>	<u>(1,780)</u>	<u>(3,154)</u>	<u>(1,374)</u>
Fund balances at January 1, 2010		17,725			8,590	
Fund balances at June 30, 2010	<u>\$</u>	<u>17,814</u>	<u>\$</u>	<u>(1,780)</u>	<u>\$</u>	<u>(1,374)</u>

City of Muskegon
COMBINING BALANCE SHEET
 Other Capital Projects Funds
 June 30, 2010

	Total other capital projects funds	Public Improvement	Sidewalk Replacement	Michoon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement	Neighborhood Stabilization	Economic Development - Suppi
ASSETS												
Cash and investments	\$ 2,760,555	\$ 1,115,276	\$ 631,996	\$ 215,079	\$ 123,360	\$ -	\$ 97,785	\$ -	\$ 76,955	\$ -	\$ -	\$ 500,104
Receivables												
Accounts and loans (net of allowance for uncollectibles)	716,768	24,031	-	-	43,407	376,117	249,693	-	-	23,520	-	-
Special assessments	206,656	-	206,656	-	-	-	-	-	-	-	-	-
Due from other governmental units	1,016,184	-	-	-	-	286,757	324,934	76,901	-	938	326,654	-
Due from other funds	19,102	-	-	-	-	-	-	-	-	19,102	-	-
Total assets	\$ 4,719,265	\$ 1,139,307	\$ 838,652	\$ 215,079	\$ 166,767	\$ 662,874	\$ 672,412	\$ 76,901	\$ 76,955	\$ 43,560	\$ 326,654	\$ 500,104
LIABILITIES AND FUND BALANCES (DEFICIT)												
Liabilities												
Accounts payable	\$ 456,530	\$ 426,676	\$ -	\$ -	\$ -	\$ 1,273	\$ 9,542	\$ 1,021	\$ 4,704	\$ -	\$ 13,314	\$ -
Accrued liabilities	3,129	-	-	-	-	2,403	-	281	-	-	445	-
Due to other funds	1,040,496	-	-	-	-	378,292	-	317,003	-	32,306	312,895	-
Deferred revenue	666,292	16,000	206,656	-	-	280,906	162,730	-	-	-	-	-
Total liabilities	2,166,447	442,676	206,656	-	-	662,874	172,272	318,305	4,704	32,306	326,654	-
Fund balances (deficit)												
Reserved for:												
Long-term loans receivable	293,100	-	-	-	43,407	-	249,693	-	-	-	-	-
Capital projects	2,253,683	449,192	631,996	215,079	123,360	-	250,447	-	72,251	11,254	-	500,104
Unreserved												
Designated for approved projects	247,439	247,439	-	-	-	-	-	-	-	-	-	-
Undesignated	(241,404)	-	-	-	-	-	-	(241,404)	-	-	-	-
Total fund balances (deficit)	2,552,818	696,631	631,996	215,079	166,767	-	500,140	(241,404)	72,251	11,254	-	500,104
Total liabilities and fund balances (deficit)	\$ 4,719,265	\$ 1,139,307	\$ 838,652	\$ 215,079	\$ 166,767	\$ 662,874	\$ 672,412	\$ 76,901	\$ 76,955	\$ 43,560	\$ 326,654	\$ 500,104

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Other Capital Projects Funds
 For the six months ended June 30, 2010

	Total other capital projects funds	Public Improvement	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement	Neighborhood Stabilization	Economic Development - Suppi
REVENUES												
Intergovernmental revenues												
Federal	\$ 848,127	\$ -	\$ -	\$ -	\$ -	\$ 420,169	\$ 18,551	\$ 143,912	\$ -	\$ -	\$ 265,495	\$ -
State	198,855	-	-	-	-	-	198,855	-	-	-	-	-
Charges for services	70,990	48,211	-	-	-	-	-	-	22,779	-	-	-
Investment earnings	30,759	8,557	19,395	1,100	1,024	96	37	-	446	-	-	104
Other	532,416	-	5,117	-	12,885	2,340	-	-	-	11,254	820	500,000
Total revenues	1,681,147	56,768	24,512	1,100	13,909	422,605	217,443	143,912	23,225	11,254	266,315	500,104
EXPENDITURES												
Debt service												
Principal	303,466	113,466	190,000	-	-	-	-	-	-	-	-	-
Interest and fees	26,839	7,536	19,303	-	-	-	-	-	-	-	-	-
Capital outlay	1,732,699	558,892	2,296	203	-	422,605	316,478	143,912	21,998	-	266,315	-
Total expenditures	2,063,004	679,894	211,599	203	-	422,605	316,478	143,912	21,998	-	266,315	-
Excess of revenues over (under) expenditures	(381,857)	(623,126)	(187,087)	897	13,909	-	(99,035)	-	1,227	11,254	-	500,104
OTHER FINANCING SOURCES												
Proceeds from sale of capital assets	75,465	31	-	-	-	-	-	75,434	-	-	-	-
Net change in fund balances	(306,392)	(623,095)	(187,087)	897	13,909	-	(99,035)	75,434	1,227	11,254	-	500,104
Fund balances (deficit) at January 1, 2010	2,859,210	1,319,726	819,083	214,182	152,858	-	599,175	(316,838)	71,024	-	-	-
Fund balances (deficit) at June 30, 2010	\$ 2,552,818	\$ 696,631	\$ 631,996	\$ 215,079	\$ 166,767	\$ -	\$ 500,140	\$ (241,404)	\$ 72,251	\$ 11,254	\$ -	\$ 500,104

DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services – to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment – to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance – to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building – to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

City of Muskegon
COMBINING STATEMENT OF NET ASSETS (DEFICITS)
Internal Service Funds
June 30, 2010

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 4,316,036	-	\$ 2,755,881	\$ 1,115,224	\$ 444,931
Accounts receivable	919,963	18,023	4,851	897,089	-
Inventories	28,711	-	28,711	-	-
Prepaid items	767,028	2,893	54,130	705,601	4,404
Total current assets	6,031,738	20,916	2,843,573	2,717,914	449,335
NONCURRENT ASSETS					
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	121,648	-	-	-	121,648
Buildings and improvements	1,559,334	-	-	-	1,559,334
Machinery and equipment	7,006,260	26,355	6,945,216	-	34,689
Less accumulated depreciation	(6,942,259)	(26,355)	(5,782,714)	-	(1,133,190)
Total noncurrent assets	1,809,983	-	1,162,502	-	647,481
Total assets	7,841,721	20,916	4,006,075	2,717,914	1,096,816
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	406,687	687	31,584	372,511	1,905
Accrued liabilities	10,480	2,530	2,995	250	4,705
Due to other funds	98,892	98,892	-	-	-
Bonds and other obligations, due within one year	17,300	4,000	5,000	300	8,000
Total current liabilities	533,359	106,109	39,579	373,061	14,610
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	83,974	17,125	25,732	1,253	39,864
Total liabilities	617,333	123,234	65,311	374,314	54,474
NET ASSETS (DEFICITS)					
Invested in capital assets	1,809,983	-	1,162,502	-	647,481
Unrestricted	5,414,405	(102,318)	2,778,262	2,343,600	394,861
Total net assets (deficits)	7,224,388	\$ (102,318)	\$ 3,940,764	\$ 2,343,600	\$ 1,042,342

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICITS)
 Internal Service Funds

For the six months ended June 30, 2010

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 4,254,554	\$ 160,307	\$ 1,181,728	\$ 2,427,849	\$ 484,670
Other	46,579	17,467	23,075	6,037	-
Total operating revenues	<u>4,301,133</u>	<u>177,774</u>	<u>1,204,803</u>	<u>2,433,886</u>	<u>484,670</u>
OPERATING EXPENSES					
Administration	160,176	37,026	62,562	35,820	24,768
Insurance premiums and claims	1,884,968	-	-	1,884,968	-
Other operations	1,644,498	181,218	902,244	15,667	545,369
Depreciation	271,813	-	239,112	-	32,701
Total operating expenses	<u>3,961,455</u>	<u>218,244</u>	<u>1,203,918</u>	<u>1,936,455</u>	<u>602,838</u>
Operating income (loss)	339,678	(40,470)	885	497,431	(118,168)
NONOPERATING REVENUES					
Investment earnings	20,400	103	13,150	4,577	2,570
Gain on sale of capital assets	67,112	-	67,112	-	-
Total nonoperating revenues	<u>87,512</u>	<u>103</u>	<u>80,262</u>	<u>4,577</u>	<u>2,570</u>
Income (loss) before transfers	427,190	(40,367)	81,147	502,008	(115,598)
Transfers in	14,023	-	-	14,023	-
Change in net assets	441,213	(40,367)	81,147	516,031	(115,598)
Net assets (deficit) at January 1, 2010	6,783,175	(61,951)	3,859,617	1,827,569	1,157,940
Net assets (deficit) at June 30, 2010	<u>\$ 7,224,388</u>	<u>\$ (102,318)</u>	<u>\$ 3,940,764</u>	<u>\$ 2,343,600</u>	<u>\$ 1,042,342</u>

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the six months ended June 30, 2010

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 49,456	\$ 17,337	\$ 26,082	\$ 6,037	\$ -
Receipts from interfund services provided	3,993,626	210,863	1,181,728	2,116,365	484,670
Payments to suppliers	(3,014,539)	(73,769)	(603,145)	(2,184,542)	(153,083)
Payments to employees	(665,819)	(127,054)	(179,562)	(13,424)	(345,779)
Payments for interfund services used	(520,771)	(27,480)	(269,218)	(167,048)	(57,025)
Net cash provided by (used for) operating activities	<u>(158,047)</u>	<u>(103)</u>	<u>155,885</u>	<u>(242,612)</u>	<u>(71,217)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	14,023	-	-	14,023	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	67,404	-	67,404	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	20,400	103	13,150	4,577	2,570
Net increase (decrease) in cash and investments	<u>(56,220)</u>	<u>-</u>	<u>236,439</u>	<u>(224,012)</u>	<u>(68,647)</u>
Cash and investments at January 1, 2010	4,372,256	-	2,519,442	1,339,236	513,578
Cash and investments at June 30, 2010	<u>\$ 4,316,036</u>	<u>\$ -</u>	<u>\$ 2,755,881</u>	<u>\$ 1,115,224</u>	<u>\$ 444,931</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 339,678	\$ (40,470)	\$ 885	\$ 497,431	\$ (118,168)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	271,813	-	239,112	-	32,701
Change in assets and liabilities					
Receivables, net	(347,004)	(130)	3,007	(349,881)	-
Inventories	(4,961)	-	(4,961)	-	-
Prepaid items	(569,673)	(2,029)	(38,656)	(525,734)	(3,254)
Accounts payable	97,426	(2,169)	(22,585)	135,678	(13,498)
Accrued liabilities	4,118	(5,861)	(20,917)	(106)	31,002
Due to other funds	50,556	50,556	-	-	-
Net cash provided by (used for) operating activities	<u>\$ (158,047)</u>	<u>\$ (103)</u>	<u>\$ 155,885</u>	<u>\$ (242,612)</u>	<u>\$ (71,217)</u>

DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

AGENCY FUNDS are used to account for assets held as an agent for another organization or individual.

Collector – to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax – to account for levy, collection and payment of taxes levied for the general and other funds of the City, county and public school districts.

Rehab Loan Escrow – to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.

City of Muskegon
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2010

	Total agency funds	Collector	Current tax	Rehab Loan Escrow
ASSETS				
Cash and investments	\$ 725,123	\$ 724,878	\$ -	\$ 245
Accounts receivable	1,867	1,867	-	-
Total assets	\$ 726,990	\$ 726,745	\$ -	\$ 245
LIABILITIES				
Accounts payable	\$ 71,071	\$ 70,826	\$ -	\$ 245
Due to other governmental units	396,210	396,210	-	-
Deposits held for others	259,709	259,709	-	-
Total liabilities	\$ 726,990	\$ 726,745	\$ -	\$ 245

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

For the six months ended June 30, 2010

	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>
<u>COLLECTOR FUND</u>				
<u>ASSETS</u>				
Cash and investments	\$ 707,927	\$ 10,245,217	\$ 10,228,266	\$ 724,878
Accounts receivable	<u>1,868</u>	<u>218,075</u>	<u>218,076</u>	<u>1,867</u>
Total assets	<u>\$ 709,795</u>	<u>\$ 10,463,292</u>	<u>\$ 10,446,342</u>	<u>\$ 726,745</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 204,587	\$ 7,448,167	\$ 7,581,928	\$ 70,826
Due to other governmental units	314,374	1,305,293	1,223,457	396,210
Deposits held for others	<u>190,834</u>	<u>2,955,082</u>	<u>2,886,207</u>	<u>259,709</u>
Total liabilities	<u>\$ 709,795</u>	<u>\$ 11,708,542</u>	<u>\$ 11,691,592</u>	<u>\$ 726,745</u>
<u>CURRENT TAX FUND</u>				
<u>ASSETS</u>				
Cash and investments	\$ 4,705,073	\$ 21,477,923	\$ 26,182,996	\$ -
Property taxes receivable	<u>15,016,716</u>	<u>-</u>	<u>15,016,716</u>	<u>-</u>
Total assets	<u>\$ 19,721,789</u>	<u>\$ 21,477,923</u>	<u>\$ 41,199,712</u>	<u>\$ -</u>
<u>LIABILITIES</u>				
Due to other governmental units	\$ 19,682,873	-	\$ 19,682,873	-
Due to other funds	-	5,742,126	5,742,126	-
Due to component units	-	668,785	668,785	-
Deposits held for others	<u>38,916</u>	<u>50,296</u>	<u>89,212</u>	<u>-</u>
Total liabilities	<u>\$ 19,721,789</u>	<u>\$ 6,461,207</u>	<u>\$ 26,182,996</u>	<u>\$ -</u>
<u>REHAB LOAN ESCROW FUND</u>				
<u>ASSETS</u>				
Cash and investments	-	\$ 1,287	\$ 1,042	\$ 245
<u>LIABILITIES</u>				
Accounts payable	-	\$ 1,853	\$ 1,608	\$ 245
<u>ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash and investments	\$ 5,413,000	\$ 31,724,427	\$ 36,412,304	\$ 725,123
Receivables				
Accounts	1,868	218,075	218,076	1,867
Property taxes	<u>15,016,716</u>	<u>-</u>	<u>15,016,716</u>	<u>-</u>
Total assets	<u>\$ 20,431,584</u>	<u>\$ 31,942,502</u>	<u>\$ 51,647,096</u>	<u>\$ 726,990</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 204,587	\$ 7,450,020	\$ 7,583,536	\$ 71,071
Due to other governmental units	19,997,247	1,305,293	20,906,330	396,210
Due to other funds	-	5,742,126	5,742,126	-
Due to component units	-	668,785	668,785	-
Deposits held for others	<u>229,750</u>	<u>3,005,378</u>	<u>2,975,419</u>	<u>259,709</u>
Total liabilities	<u>\$ 20,431,584</u>	<u>\$ 18,171,602</u>	<u>\$ 37,876,196</u>	<u>\$ 726,990</u>

DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority III – to account for the collection of tax increment revenues and the construction of public facilities to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

Brownfield Redevelopment Authority – to account for the collection of tax increment revenues for environmental remediation in designated brownfield areas.

City of Muskegon
COMBINING BALANCE SHEET
 Discretely Presented Component Units
 June 30, 2010

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
ASSETS					
Cash and investments	\$ 403,953	\$ 36,834	\$ 329,585	\$ 37,534	\$ -
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities					
Due to primary government	\$ 9,217	\$ -	\$ -	\$ -	\$ 9,217
Fund balances (deficits)					
Unreserved	394,736	36,834	329,585	37,534	(9,217)
Total liabilities and fund balances (deficits)	\$ 403,953	\$ 36,834	\$ 329,585	\$ 37,534	\$ -

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2010

Total fund balance—governmental funds \$ 394,736

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

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

Capital assets	\$ 4,198,258
Accumulated depreciation	<u>(1,136,600)</u>
	3,061,658

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

Bond issuance costs	141,966
Accumulated amortization	<u>(46,293)</u>
	95,673

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

(41,600)

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

(7,725,122)

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

\$ (4,214,655)

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Discretely Presented Component Units
 For the six months ended June 30, 2010

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
REVENUES					
Property taxes	\$ 455,284	\$ 71,360	\$ 327,373	\$ 40,634	\$ 15,917
Intergovernmental revenues - Local	50,000	50,000	-	-	-
Investment earnings	1,456	133	1,212	111	-
Total revenues	<u>506,740</u>	<u>121,493</u>	<u>328,585</u>	<u>40,745</u>	<u>15,917</u>
EXPENDITURES					
Current	39,920	-	-	25,000	14,920
Community and economic development					
Debt service					
Principal	230,000	-	230,000	-	-
Interest and fees	156,950	98,424	58,526	-	-
Total expenditures	<u>426,870</u>	<u>98,424</u>	<u>288,526</u>	<u>25,000</u>	<u>14,920</u>
Net change in fund balances	79,870	23,069	40,059	15,745	997
Fund balances (deficit) at January 1, 2010	<u>314,866</u>	<u>13,765</u>	<u>289,526</u>	<u>21,789</u>	<u>(10,214)</u>
Fund balances (deficit) at June 30, 2010	<u>\$ 394,736</u>	<u>\$ 36,834</u>	<u>\$ 329,585</u>	<u>\$ 37,534</u>	<u>\$ (9,217)</u>

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

Discretely Presented Component Units
For the six months ended June 30, 2010

Net change in fund balances—total governmental funds	\$ 79,870
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	(89,410)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	800
Change in net assets of governmental activities	\$ <u>220,986</u>

SCHEDULE OF INDEBTEDNESS

City of Muskegon

SCHEDULE OF INDEBTEDNESS

June 30, 2010

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	12/31/2009	6/30/2010	Annual Interest Payable
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds	10/1/1993	\$ 5,465,000	0.00%	05/01/10	\$ -	\$ -	-
			0.00%	05/01/11	-	-	-
			4.50%	05/01/12	450,000	-	-
			4.50%	05/01/13	450,000	-	-
					900,000	-	-
Water supply system bonds	3/2/1999	\$ 9,575,000	4.20%	05/01/10	535,000	-	-
			4.30%	05/01/11	555,000	-	-
			4.35%	05/01/12	130,000	-	-
			4.40%	05/01/13	155,000	-	-
			4.50%	05/01/14	635,000	-	-
			4.55%	05/01/15	665,000	-	-
			4.60%	05/01/16	695,000	-	-
			4.65%	05/01/17	730,000	-	-
			4.75%	05/01/18	765,000	-	-
			4.75%	05/01/19	800,000	-	-
		5,665,000	-	-			
Water supply system bonds (\$188,136 unamortized premium)	4/1/2010	\$ 5,995,000	2.00%	05/01/11	-	580,000	211,995
			2.00%	05/01/12	-	600,000	184,088
			3.00%	05/01/13	-	610,000	172,088
			2.77%	05/01/14	-	640,000	153,788
			3.50%	05/01/15	-	660,000	136,088
			3.25%	05/01/16	-	685,000	112,988
			4.00%	05/01/17	-	710,000	90,725
			4.00%	05/01/18	-	740,000	62,325
			4.25%	05/01/19	-	770,000	32,725
		-	-	5,995,000	1,156,807		
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/10	615,000	615,000	239,328
			2.13%	10/01/11	630,000	630,000	226,100
			2.13%	10/01/12	640,000	640,000	212,606
			2.13%	10/01/13	655,000	655,000	198,847
			2.13%	10/01/14	670,000	670,000	184,769
			2.13%	10/01/15	685,000	685,000	170,372
			2.13%	10/01/16	695,000	695,000	155,709
			2.13%	10/01/17	710,000	710,000	140,781
			2.13%	10/01/18	725,000	725,000	125,534
			2.13%	10/01/19	745,000	745,000	109,916
			2.13%	10/01/20	760,000	760,000	93,925
			2.13%	10/01/21	775,000	775,000	77,616
			2.13%	10/01/22	790,000	790,000	60,988
			2.13%	10/01/23	810,000	810,000	43,988
2.13%	10/01/24	825,000	825,000	26,616			
2.13%	10/01/25	840,000	840,000	8,925			
		11,570,000		11,570,000	2,076,019		
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					\$ 18,135,000	\$ 17,565,000	\$ 3,232,826

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2010

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					12/31/2009	6/30/2010	
Governmental Activities Bonds and Loans Payable:							
Installment purchase contract of 2005 (firetrucks)	7/26/2005	\$ 605,824	3.83%	04/01/10	\$ 58,894	\$ -	-
			3.83%	04/01/11	61,420	61,420	12,816
			3.83%	04/01/12	64,055	64,055	10,462
			3.83%	04/01/13	66,803	66,803	8,010
			3.83%	04/01/14	69,669	69,669	5,452
			3.83%	04/01/15	72,658	72,658	2,782
				<u>393,499</u>	<u>334,605</u>	<u>39,522</u>	
Special assessment improvement bonds of 2000 (sidewalks)	12/1/2000	\$ 825,000	5.00%	04/01/10	70,000	-	-
					<u>70,000</u>	<u>-</u>	<u>-</u>
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	3.50%	06/01/10	120,000	-	-
			3.50%	06/01/11	120,000	120,000	30,905
			3.70%	06/01/12	125,000	125,000	26,705
			3.80%	06/01/13	130,000	130,000	22,080
			3.90%	06/01/14	135,000	135,000	17,140
			4.00%	06/01/15	145,000	145,000	11,875
			4.05%	06/01/16	150,000	150,000	6,075
				<u>925,000</u>	<u>805,000</u>	<u>114,780</u>	
Capital improvement bonds of 2006 (fire station, recreation) (\$14,197 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/10	70,000	70,000	213,945
			4.00%	10/01/11	70,000	70,000	211,145
			4.00%	10/01/12	70,000	70,000	208,345
			4.00%	10/01/13	70,000	70,000	205,545
			4.00%	10/01/14	70,000	70,000	202,745
			4.00%	10/01/15	70,000	70,000	199,945
			4.00%	10/01/16	70,000	70,000	197,145
			4.00%	10/01/17	70,000	70,000	194,345
			4.00%	10/01/18	70,000	70,000	191,545
			4.00%	10/01/19	295,000	295,000	184,245
			4.00%	10/01/20	305,000	305,000	172,245
			4.00%	10/01/21	315,000	315,000	159,845
			4.00%	10/01/22	315,000	315,000	147,245
			4.00%	10/01/23	320,000	320,000	134,545
			4.00%	10/01/24	340,000	340,000	121,345
			4.00%	10/01/25	345,000	345,000	107,645
			4.00%	10/01/26	345,000	345,000	93,845
			4.10%	10/01/27	345,000	345,000	79,873
			4.10%	10/01/28	350,000	350,000	65,625
4.10%	10/01/29	350,000	350,000	51,275			
4.20%	10/01/30	350,000	350,000	36,750			
4.20%	10/01/31	350,000	350,000	22,050			
4.20%	10/01/32	350,000	350,000	7,350			
				<u>5,305,000</u>	<u>5,305,000</u>	<u>3,208,588</u>	

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2010

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	12/31/2009	6/30/2010	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
State of Michigan urban land assembly loan	8/1/2005 \$	700,000	0.00%	09/01/10	20,000	20,000	-
			0.00%	09/01/11	120,000	120,000	-
			0.00%	09/01/12	120,000	120,000	-
			0.00%	09/01/13	120,000	120,000	-
			0.00%	09/01/14	120,000	120,000	-
			0.00%	09/01/15	120,000	120,000	-
				<u>620,000</u>	<u>620,000</u>	<u>-</u>	
State of Michigan environmental assessment loan	8/1/2005 \$	500,000	0.00%	03/18/10	54,572	-	-
			2.00%	03/18/11	45,663	45,663	8,909
			2.00%	03/18/12	46,577	46,577	7,995
			2.00%	03/18/13	47,508	47,508	7,064
			2.00%	03/18/14	48,458	48,458	6,114
			2.00%	03/18/15	49,427	49,427	5,144
			2.00%	03/18/16	50,416	50,416	4,156
			2.00%	03/18/17	51,424	51,424	3,148
			2.00%	03/18/18	52,453	52,453	2,119
			2.00%	03/18/19	53,502	53,502	1,070
				<u>500,000</u>	<u>445,428</u>	<u>45,718</u>	
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 7,813,499</u>	<u>\$ 7,510,033</u>	<u>\$ 3,408,608</u>
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					<u>\$ 25,948,499</u>	<u>\$ 25,075,033</u>	<u>\$ 6,641,434</u>

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2010

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	12/31/2009	6/30/2010	Annual Interest Payable
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Downtown Development Authority refunding bonds	9/1/2001	\$ 4,005,000	4.25%	06/01/10	230,000	-	-
			4.35%	06/01/11	240,000	240,000	106,078
			4.45%	06/01/12	245,000	245,000	95,638
			4.55%	06/01/13	260,000	260,000	84,735
			4.65%	06/01/14	270,000	270,000	72,905
			4.75%	06/01/15	280,000	280,000	60,350
			4.85%	06/01/16	300,000	300,000	47,050
			5.00%	06/01/17	315,000	315,000	32,500
			5.00%	06/01/18	335,000	335,000	16,750
					2,475,000	2,245,000	516,005
Local Development Finance Authority Smartzone Bonds (\$4,878 unamortized discount)	11/1/2002	\$ 4,725,000	3.88%	11/01/10	80,000	80,000	195,298
			3.88%	11/01/11	80,000	80,000	192,197
			4.00%	11/01/12	180,000	180,000	187,048
			3.90%	11/01/13	240,000	240,000	178,768
			4.05%	11/01/14	305,000	305,000	167,911
			4.05%	11/01/15	325,000	325,000	155,154
			4.15%	11/01/16	340,000	340,000	141,518
			4.25%	11/01/17	355,000	355,000	126,919
			4.35%	11/01/18	375,000	375,000	111,219
			4.45%	11/01/19	395,000	395,000	94,274
			4.60%	11/01/20	400,000	400,000	76,285
			4.60%	11/01/21	255,000	255,000	61,220
			4.60%	11/01/22	265,000	265,000	49,260
			4.85%	11/01/23	280,000	280,000	36,375
			4.85%	11/01/24	295,000	295,000	22,431
			4.85%	11/01/25	315,000	315,000	7,639
					4,485,000	4,485,000	1,803,513
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 7,960,000	\$ 7,730,000	\$ 2,319,518
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 33,908,499	\$ 32,805,033	\$ 8,960,952

Statistical Section

This part of the City of Muskegon's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	116
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	120
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	126
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	130
Operating Information	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	132

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

City of Muskegon

NET ASSETS BY COMPONENT

Last Eight Fiscal Years

	2003	2004	2005 (a)	2006	2007	2008	2009	June 30 2010
Governmental Activities								
Invested in Capital Assets, net of related debt	\$ 32,120,134	\$ 40,663,844	\$ 67,119,658	\$ 68,189,021	\$ 68,059,626	\$ 69,564,935	\$ 69,064,800	\$ 67,809,630
Restricted	5,674,787	5,209,654	5,420,482	5,378,669	5,485,703	3,557,678	2,956,449	3,059,208
Unrestricted	9,286,551	7,407,355	7,811,489	8,778,786	10,162,425	10,708,529	8,920,621	13,828,231
Total Governmental Net Assets	\$ 47,081,472	\$ 53,280,853	\$ 80,351,629	\$ 82,346,476	\$ 83,707,754	\$ 83,831,142	\$ 80,941,870	\$ 84,697,069
Business-type Activities								
Invested in Capital Assets, net of related debt	\$ 27,808,792	\$ 31,609,016	\$ 36,742,669	\$ 39,441,912	\$ 39,356,966	\$ 40,876,621	\$ 41,876,507	\$ 41,105,739
Restricted	822,559	822,559	822,559	822,559	822,559	822,559	672,000	672,000
Unrestricted	10,488,022	8,647,716	6,663,563	6,910,247	7,980,823	6,775,508	5,983,935	7,630,396
Total Business-type Activities Net Assets	\$ 39,119,373	\$ 41,079,291	\$ 44,228,791	\$ 47,174,718	\$ 48,160,348	\$ 48,474,688	\$ 48,532,442	\$ 49,408,135
Primary Government								
Invested in Capital Assets, net of related debt	\$ 59,928,926	\$ 72,272,860	\$ 103,862,327	\$ 107,630,933	\$ 107,416,592	\$ 110,441,556	\$ 110,941,307	\$ 108,915,369
Restricted	6,497,346	6,032,213	6,243,041	6,201,228	6,308,262	4,380,237	3,628,449	3,731,208
Unrestricted	19,774,573	16,055,071	14,475,052	15,689,033	18,143,248	17,484,037	14,904,556	21,458,627
Total Primary Government Net Assets	\$ 86,200,845	\$ 94,360,144	\$ 124,580,420	\$ 129,521,194	\$ 131,868,102	\$ 132,305,830	\$ 129,474,312	\$ 134,105,204

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

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

City of Muskegon
CHANGES IN NET ASSETS
 Last Eight Fiscal Years

	Year Ended December 31							Period Ended
	2003	2004	2005	2006	2007	2008	2009	June 30 2010
EXPENSES								
Governmental Activities								
Public representation	\$ 887,496	\$ 866,669	\$ 885,365	\$ 904,109	\$ 925,124	\$ 986,696	\$ 923,911	\$ 445,251
Administrative services	1,227,407	1,132,229	803,793	732,715	783,713	782,362	698,022	317,673
Financial services	1,842,653	1,809,136	1,872,159	2,061,836	2,205,041	2,292,430	2,406,517	1,209,694
Public safety	11,583,282	12,164,389	12,481,826	13,059,358	12,802,488	13,965,811	13,614,112	6,332,728
Public works	2,947,194	2,847,755	2,853,497	3,089,522	2,989,433	3,019,411	2,986,747	1,640,946
Highways, streets and bridges	3,483,032	3,879,462	5,910,307	5,672,590	7,272,288	7,265,438	7,160,797	3,680,196
Community and economic development	3,371,472	2,652,497	3,693,187	3,383,157	3,054,087	3,174,508	4,139,765	1,275,026
Culture and recreation	3,042,315	2,468,059	2,504,692	2,464,567	2,433,020	2,623,501	2,463,375	759,392
General administration	1,601,112	1,725,225	1,608,108	1,143,963	358,225	574,955	451,651	210,117
Interest on long-term debt	223,717	193,021	170,814	206,768	343,106	324,076	288,073	139,006
Total Governmental Activities Expenses	30,209,680	29,738,442	32,783,738	32,718,585	33,166,525	34,999,188	35,132,970	16,010,229
Business-type Activities								
Water	4,538,186	4,122,822	4,181,855	4,500,578	5,795,279	5,800,977	6,080,230	2,958,795
Sewer	3,416,372	3,745,156	3,953,838	5,006,594	5,066,693	5,503,144	5,426,321	2,525,607
Marina and launch ramp	325,401	351,705	343,599	332,826	392,994	347,642	310,773	150,055
Total Business-type Activities Expenses	8,279,959	8,219,683	8,479,292	9,839,998	11,254,966	11,651,763	11,817,324	5,633,917
Total Primary Government Expenses	\$ 38,489,639	\$ 37,958,125	\$ 41,263,030	\$ 42,558,583	\$ 44,421,491	\$ 46,650,951	\$ 46,950,294	\$ 21,644,146
PROGRAM REVENUES								
Governmental Activities								
Charges for Services								
Public representation	\$ 204,435	\$ 210,238	\$ 195,316	\$ 202,939	\$ 199,759	\$ 188,467	\$ 213,885	\$ 100,177
Administrative services	292,665	314,028	311,529	306,964	287,011	257,850	271,117	129,630
Financial services	591,174	645,166	537,445	728,332	744,109	726,572	818,845	475,031
Public safety	1,162,175	1,098,793	1,116,755	1,134,686	1,224,062	1,217,616	1,117,476	536,419
Public works	266,045	452,606	467,849	588,566	407,569	382,072	383,733	209,203
Highways, streets and bridges	273,893	555,018	267,689	263,423	372,133	301,955	251,840	139,009
Community and economic development	977,448	414,543	815,980	762,220	356,051	297,854	249,241	186,572
Culture and recreation	1,026,822	1,151,687	1,141,865	809,228	454,154	405,520	445,891	129,025
General administration	122,447	200,434	314,658	170,240	64,366	99,494	123,426	59,373
Operating grants and contributions	5,613,628	6,008,978	6,017,421	5,093,355	5,229,279	5,367,152	6,443,223	3,131,811
Capital grants and contributions	10,494,617	5,785,604	5,894,358	5,360,014	3,347,680	3,444,957	2,105,557	255,234
Total Governmental Program Revenues	21,025,349	16,837,095	17,080,865	15,419,967	12,686,173	12,689,509	12,424,234	5,351,484
Business-type Activities								
Water	4,131,126	4,977,320	6,912,719	6,342,110	6,569,228	6,240,060	5,883,830	2,891,169
Sewer	4,057,743	4,083,591	4,149,187	4,803,702	5,179,095	5,326,787	5,720,171	3,441,924
Marina and launch ramp	274,258	266,981	248,460	267,412	281,679	250,266	242,055	156,767
Operating grants and contributions	-	-	-	-	-	-	-	-
Capital grants and contributions	256,612	657,521	100,373	710,641	-	-	5,179	-
Total Business-type Program Revenues	8,719,739	9,985,413	11,410,739	12,123,865	12,030,002	11,817,113	11,851,235	6,489,860
Total Primary Government program revenues	\$ 29,745,088	\$ 26,822,508	\$ 28,491,604	\$ 27,543,832	\$ 24,716,175	\$ 24,506,622	\$ 24,275,469	\$ 11,841,344
NET (EXPENSE) REVENUE								
Governmental Activities	(9,184,331)	(12,901,347)	(15,702,873)	(17,298,618)	(20,480,352)	(22,309,679)	(22,708,736)	(10,658,745)
Business-type Activities	439,780	1,765,730	2,931,447	2,283,867	775,036	165,350	33,911	855,943
Total Primary Government net expense	\$ (8,744,551)	\$ (11,135,617)	\$ (12,771,426)	\$ (15,014,751)	\$ (19,705,316)	\$ (22,144,329)	\$ (22,674,825)	\$ (9,802,802)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS								
Governmental Activities								
Property taxes	\$ 7,029,393	\$ 6,962,453	\$ 7,670,384	\$ 7,846,707	\$ 8,014,102	\$ 8,349,341	\$ 8,492,507	\$ 8,681,256
Income taxes	6,644,708	7,326,811	7,238,552	7,673,696	7,757,707	8,117,566	6,628,365	3,505,264
Franchise fees	265,532	-	286,265	295,124	297,200	304,812	321,852	178,239
Grants and contributions not restricted for specific programs	4,938,861	4,645,348	4,627,915	4,674,157	4,475,462	4,487,698	3,841,922	1,832,066
Unrestricted investment earnings	281,492	170,094	420,595	832,300	1,247,520	730,142	185,436	104,086
Miscellaneous	109,620	68,405	70,402	64,645	88,035	160,460	226,124	51,638
Gain on sale of capital asset	62,992	70,886	300,037	81,372	1,604	323,048	123,258	65,155
Transfers	-	(142,420)	(80,000)	(540,000)	(40,000)	(40,000)	-	(3,760)
Total Governmental Program Revenues	19,332,598	19,101,577	20,534,150	20,918,001	21,841,630	22,433,067	19,819,464	14,413,944
Business-type Activities								
Unrestricted investment earnings	71,628	51,768	138,053	122,060	170,594	108,990	23,843	15,990
Gain on sale of capital asset	(88,767)	-	-	-	-	-	-	-
Transfers	-	142,420	80,000	540,000	40,000	40,000	-	3,760
Total Business-type program revenues	(17,139)	194,188	218,053	662,060	210,594	148,990	23,843	19,750
Total Primary Government program revenues	\$ 19,315,459	\$ 19,295,765	\$ 20,752,203	\$ 21,580,061	\$ 22,052,224	\$ 22,582,057	\$ 19,843,307	\$ 14,433,694
CHANGE IN NET ASSETS								
Governmental Activities	10,148,267	6,200,230	4,831,277	3,619,383	1,361,278	123,388	(2,889,272)	3,755,199
Business-type Activities	422,641	1,959,918	3,149,500	2,945,927	985,630	314,340	57,754	875,683
Total Primary Government	\$ 10,570,908	\$ 8,160,148	\$ 7,980,777	\$ 6,565,310	\$ 2,346,908	\$ 437,728	\$ (2,831,518)	\$ 4,630,882

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

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	December 31										June 30
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
General fund											
Reserved	\$ 75,337	\$ 173,696	\$ 110,642	\$ 74,349	\$ 79,356	\$ 177,076	\$ 180,410	\$ 214,819	\$ 187,633	\$ 300,969	
Unreserved	3,087,031	2,634,300	2,320,776	2,370,842	2,440,249	2,512,963	2,740,222	2,168,906	1,451,029	5,737,485	
Total general fund	\$ 3,162,368	\$ 2,807,996	\$ 2,431,418	\$ 2,445,191	\$ 2,519,605	\$ 2,690,039	\$ 2,920,632	\$ 2,383,725	\$ 1,638,662	\$ 6,038,454	
All other governmental funds											
Reserved	\$ 2,533,419	\$ 2,309,214	\$ 1,159,364	\$ 1,187,662	\$ 2,915,106	\$ 7,044,394	\$ 4,130,995	\$ 4,382,118	\$ 3,613,858	\$ 3,887,289	
Unreserved, reported in:											
Special revenue funds	4,579,430	3,785,857	3,254,746	2,692,431	2,910,285	3,030,096	4,462,015	2,768,886	2,060,117	2,163,041	
Debt service	-	-	153,955	-	-	-	-	-	-	-	
Capital project funds	2,143,770	1,614,636	3,849,868	2,187,667	1,239,763	390,282	635,676	675,898	554,273	6,035	
Permanent funds	91,707	102,837	63,798	22,896	22,890	77,300	84,413	60,813	15,613	16,979	
Total all other governmental funds	\$ 9,348,326	\$ 7,812,544	\$ 8,481,731	\$ 6,090,656	\$ 7,088,044	\$ 10,542,072	\$ 9,313,099	\$ 7,887,715	\$ 6,243,861	\$ 6,073,344	

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

City of Muskegon

CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	Year Ended December 31										Period Ended June 30 2010	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Revenues												
Taxes	\$ 12,996,607	\$ 13,607,863	\$ 13,306,798	\$ 13,767,040	\$ 14,521,769	\$ 15,052,708	\$ 15,420,032	\$ 15,728,859	\$ 14,673,012	\$ 11,855,182		
Intergovernmental	15,847,954	15,473,320	18,879,071	15,448,865	15,445,949	14,703,371	12,752,363	13,012,035	12,400,408	4,785,494		
Charges for services	2,847,201	3,010,798	3,307,607	3,437,220	3,147,066	2,938,246	2,722,894	2,463,975	2,620,372	1,338,194		
Other	4,965,889	3,872,459	3,629,983	3,828,223	4,134,604	3,758,956	4,618,149	3,624,579	3,177,522	1,768,895		
Total revenues	36,657,651	35,964,440	39,123,459	36,481,348	37,249,388	36,453,281	35,513,438	34,829,448	32,871,314	19,747,765		
Expenditures												
Public representation	903,378	985,107	889,188	869,342	886,717	903,895	927,320	987,229	923,923	448,703		
Administrative services	717,680	816,581	785,966	704,667	748,588	669,789	644,913	632,513	549,833	255,166		
Financial services	1,679,979	1,797,662	1,846,558	1,829,276	1,905,714	2,056,580	2,231,519	2,298,830	2,406,623	1,241,430		
Public safety	11,136,752	11,514,151	11,439,487	12,277,677	12,624,532	13,002,233	12,902,815	13,754,394	13,567,101	6,578,735		
Public works	2,678,089	2,680,695	2,731,241	2,543,512	2,661,073	2,730,415	2,768,906	2,831,177	2,860,510	1,589,090		
Highways, streets and bridges	8,309,998	8,816,305	11,800,017	8,654,931	9,531,840	8,023,539	6,504,915	6,414,453	6,562,964	2,017,139		
Community and economic development	948,756	971,335	987,097	797,072	784,396	763,211	894,879	1,077,312	939,895	419,534		
Culture and recreation	2,637,586	2,610,935	2,624,275	2,259,699	2,197,276	2,190,835	2,254,117	2,394,031	2,196,186	639,852		
Other governmental functions	1,441,234	1,798,345	1,589,572	1,708,868	1,603,292	1,139,148	350,385	562,341	438,292	200,623		
Debt service												
Principal	1,425,741	1,345,000	1,270,000	1,335,000	1,115,000	1,189,785	1,241,921	999,148	663,371	303,466		
Interest and issuance costs	367,317	316,255	230,907	201,447	166,071	271,233	324,577	310,432	282,174	136,013		
Capital outlay	5,338,105	4,721,155	4,496,631	6,139,597	3,734,082	6,066,783	5,683,657	5,473,828	3,987,509	1,746,421		
Total expenditure	37,584,615	38,373,526	40,690,939	39,321,088	37,958,581	39,007,446	36,729,924	37,735,688	35,378,381	15,576,172		
Excess of revenues over (under) expenditures	(926,964)	(2,409,086)	(1,567,480)	(2,839,740)	(709,193)	(2,554,165)	(1,216,486)	(2,906,240)	(2,507,067)	4,171,593		
Other financing sources (uses)												
Transfers in	2,713,591	2,059,336	2,740,742	3,342,612	1,839,631	2,358,509	1,926,538	1,477,717	1,359,608	342,188		
Transfers out	(2,403,591)	(2,047,491)	(2,740,742)	(3,233,369)	(1,947,677)	(2,926,554)	(1,984,584)	(1,409,491)	(1,309,910)	(359,971)		
Bonds issued	-	106,807	1,578,009	-	1,061,900	5,626,331	-	500,000	-	-		
Sale of capital assets	289,786	400,280	282,080	483,544	827,141	1,120,341	286,152	375,723	68,452	75,465		
Total other financing sources (uses)	599,786	518,932	1,880,089	592,787	1,780,995	6,178,627	218,106	943,949	118,150	57,682		
Net change in fund balances	\$ (327,178)	\$ (1,890,154)	\$ 292,609	\$ (2,246,953)	\$ 1,071,802	\$ 3,624,462	\$ (998,380)	\$ (1,962,291)	\$ (2,388,917)	\$ 4,229,275		
Debt service as a percentage of noncapital expenditures	5.56%	4.94%	4.15%	4.63%	3.74%	4.44%	5.05%	4.06%	3.01%	3.18%		

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

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

Year	Property Tax	% of Total	Income Tax	% of Total	Intergovernmental	% of Total	Charges for Service	% of Total	Licenses and Permits	% of Total	Fines and Fees	% of Total	Interest and Rent	% of Total	Other	% of Total	Total	% Change
2001	\$ 6,176,436	16.8%	\$ 6,820,171	18.6%	\$ 15,847,954	43.2%	\$ 2,847,201	7.8%	\$ 1,014,598	2.8%	\$ 350,557	1.0%	\$ 914,214	2.5%	\$ 2,686,520	7.3%	\$ 36,657,651	-0.1%
2002	6,915,254	19.2%	6,692,609	18.6%	15,473,320	43.0%	3,010,798	8.4%	947,428	2.6%	393,314	1.1%	662,513	1.8%	1,869,204	5.2%	35,964,440	-1.9%
2003	6,764,443	17.3%	6,542,355	16.7%	18,879,071	48.3%	3,307,607	8.5%	1,108,780	2.8%	471,682	1.2%	516,482	1.3%	1,533,039	3.9%	39,123,459	8.8%
2004	6,733,653	18.5%	7,033,387	19.3%	15,448,865	42.3%	3,437,220	9.4%	1,139,014	3.1%	622,165	1.7%	435,152	1.2%	1,631,892	4.5%	36,481,348	-6.8%
2005	7,438,382	20.0%	7,083,023	19.0%	15,445,949	41.5%	3,147,066	8.4%	1,047,981	2.8%	648,300	1.7%	684,165	1.8%	1,754,158	4.7%	37,249,024	2.1%
2006	7,627,535	20.9%	7,425,173	20.4%	14,703,371	40.3%	2,938,246	8.1%	1,009,023	2.8%	544,902	1.5%	1,139,466	3.1%	1,065,565	2.9%	36,453,281	-2.1%
2007	7,801,571	22.0%	7,618,461	21.5%	12,752,363	35.9%	2,722,894	7.7%	1,115,518	3.1%	606,545	1.7%	1,348,819	3.8%	1,547,267	4.4%	35,513,438	-2.6%
2008	8,034,079	23.1%	7,694,780	22.1%	13,012,035	37.4%	2,463,975	7.1%	1,089,187	3.1%	570,526	1.6%	861,515	2.5%	1,103,351	3.2%	34,829,448	-1.9%
2009	8,190,722	24.9%	6,482,290	19.7%	12,400,408	37.7%	2,620,372	8.0%	1,032,681	3.1%	582,394	1.8%	400,900	1.2%	1,161,547	3.5%	32,871,314	-5.6%
2010*	8,487,125	43.0%	3,368,057	17.1%	4,785,494	24.2%	1,338,194	6.8%	584,162	3.0%	297,043	1.5%	193,873	1.0%	693,817	3.5%	19,747,765	-39.9%

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

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

City of Muskegon

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Ad Valorem Assessment Roll

Industrial and Commercial Facilities Assessment Roll

Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Taxable Valuation	Taxable Value As a Percent Actual
2001	\$ 259,245,700	\$ 160,831	\$ 117,380,175	\$ 104,812,046	\$ 481,598,752	\$ 150,081,900	\$ 631,680,652	\$ 15,928,671	\$ 61,421,700	\$ -	\$ 77,350,371	\$ 709,031,023	87.40%
2002	277,504,213	163,166	129,199,142	103,473,256	510,339,777	125,589,450	635,929,227	10,786,400	61,521,500	-	72,307,900	708,237,127	86.36%
2003	295,311,699	163,844	124,679,713	101,987,394	522,142,650	124,833,198	646,975,848	9,114,034	51,183,000	-	60,297,034	707,272,882	85.80%
2004	309,291,380	167,357	123,303,933	103,175,554	535,938,224	115,456,493	651,394,717	7,564,826	51,066,856	-	58,621,682	710,016,399	87.00%
2005	322,359,014	164,935	126,046,550	104,163,650	552,734,149	109,273,769	662,007,918	7,235,276	47,458,411	-	54,693,687	716,701,605	87.62%
2006	341,365,730	-	132,415,743	105,982,619	579,764,092	103,282,670	683,046,762	6,062,774	44,389,891	-	50,452,665	733,499,427	87.46%
2007	364,789,125	-	143,991,195	109,089,684	617,870,004	111,824,925	729,694,929	5,433,443	31,408,300	-	36,841,743	766,536,672	87.21%
2008	376,414,856	160,219	140,833,691	109,931,336	627,340,102	114,100,484	741,440,586	5,747,358	24,617,400	-	30,364,758	771,805,344	86.71%
2009	376,545,791	157,682	147,276,887	114,185,691	638,166,051	111,493,852	749,659,903	5,259,649	25,616,400	-	30,876,049	780,535,952	91.48%

Assessed and Equalized Valuation of Property

Ad Valorem Assessment Roll

Industrial and Commercial Facilities Assessment Roll

Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Assessed Valuation	Estimated Actual Value
2001	\$ 336,150,700	\$ 173,600	\$ 136,833,700	\$ 109,888,900	\$ 583,046,900	\$ 150,081,900	\$ 733,128,800	\$ 16,676,500	\$ 61,421,700	\$ -	\$ 78,098,200	\$ 811,227,000	\$ 1,622,454,000
2002	358,727,850	173,600	152,324,900	110,440,500	621,666,850	125,597,200	747,264,050	11,272,200	61,521,500	-	72,793,700	820,057,750	1,640,115,500
2003	383,845,613	181,300	144,310,700	110,600,489	638,938,112	124,840,700	763,778,812	9,333,500	51,183,000	-	60,516,500	824,295,312	1,648,590,624
2004	384,783,400	184,800	141,579,300	114,496,500	641,044,000	115,591,300	756,635,300	7,717,000	51,785,000	-	59,502,000	816,137,300	1,632,274,600
2005	397,915,080	200,800	142,436,699	112,694,600	653,247,179	109,280,200	762,527,379	7,481,500	47,924,200	-	55,405,700	817,933,079	1,635,866,158
2006	420,608,600	-	149,948,800	113,890,900	684,448,300	103,288,100	787,736,400	6,454,200	44,470,600	-	50,924,800	838,661,200	1,677,322,400
2007	448,120,317	-	160,361,200	121,432,880	729,914,397	111,829,191	841,743,588	5,850,600	31,408,300	-	37,258,900	879,002,488	1,758,004,976
2008	466,633,100	194,800	156,596,000	121,810,900	745,234,800	114,104,600	859,339,400	6,162,900	24,617,400	-	30,780,300	890,119,700	1,780,239,400
2009	426,002,850	191,100	161,996,600	122,301,800	710,492,350	111,497,300	821,989,650	5,606,100	25,616,400	-	31,222,500	853,212,150	1,706,424,300

Property is assessed at 50% of true cash value. The assessed and equalized valuation of taxable property is determined as of December 31st of each year and is the basis upon which taxes are levied during the succeeding fiscal year. The passage of Proposal A in May, 1994 altered how tax values are determined. Beginning in the 1995-1996 fiscal year, property taxes are based on taxable value instead of state equalized value. Proposal A also capped taxable value of each parcel of property, adjusted for additions and losses, at the previous year's rate of inflation or 5% whichever is less, until the property is sold or transferred. When ownership of a parcel of property is transferred, the taxable value becomes 50% of true cash value, or the state equalized valuation. The industrial and Commercial Facilities Tax Acts permit certain property to be taxed at one-half the tax rate for a period up to twelve years.

City of Muskegon

Principal Property Taxpayers

June 30, 2010

Taxpayer	12/31/2009			12/31/2000		
	Taxable Valuation	Rank	Percent of Total Taxable Valuation	Taxable Valuation	Rank	Percent of Total Taxable Valuation
Consumers Energy	\$ 78,615,856	1	10.1%	\$ 67,248,351	1	10.2%
Sappi/S.D. Warren Company	31,205,687	2	4.0%	54,094,785	2	8.2%
Johnson Technology	7,679,263	3	1.0%	8,950,262	4	1.4%
ADAC Plastics Inc	7,379,563	4	0.9%	7,147,253	8	1.1%
ESCO Company	6,578,855	5	0.8%	-	-	0.0%
DTE Energy (formerly MichCon)	5,852,200	6	0.7%	9,142,300	3	1.4%
Glen Oaks Apartments LLC	4,776,500	7	0.6%	-	-	0.0%
Honeywell Inc	4,738,900	8	0.6%	-	-	0.0%
Faram Muskegon LLC	4,570,300	9	0.6%	-	-	0.0%
Lorin Industries	4,318,889	10	0.6%	8,564,530	6	1.3%
Brunswick Corp	-	-	0.0%	8,634,000	5	1.3%
Neway Anchorlok International	-	-	0.0%	8,370,668	7	1.3%
Anglo-American Clays Corporation	-	-	0.0%	6,876,300	9	1.0%
Muskegon Properties Company	-	-	0.0%	6,392,900	10	1.0%
Total - 10 Largest	155,716,013		19.9%	185,421,349		28.2%
Total - All Other	624,819,939		80.1%	472,356,912		71.8%
	\$ 780,535,952		100.0%	\$ 657,778,261		100.0%

Source: Muskegon County Equalization Department; City of Muskegon Treasurer's Office

City of Muskegon

Property Tax Rates - Direct and Overlapping Government Units
Property Tax Rates Per \$1,000 Taxable Valuation
Last Ten Fiscal Years

City-Wide Rates

Year	Operating	Promotion	Sanitation	Total City	Library District
2001	7.0000	0.0792	3.0000	10.0792	2.4000
2002	7.0000	0.0786	3.0000	10.0786	2.4000
2003	7.5000	0.0774	2.5000	10.0774	2.4000
2004	8.5000	0.0768	2.5000	11.0768	2.4000
2005	8.5000	0.0755	2.5000	11.0755	2.4000
2006	8.5000	0.0732	2.5000	11.0732	2.4000
2007	8.5000	0.0685	2.5000	11.0685	2.4000
2008	8.5000	0.0682	2.5000	11.0682	2.4000
2009	8.9000	0.0680	2.1000	11.0680	2.4000

Overlapping - County-Wide Rates

Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College
2001	6.5799	0.4640	2.3202	-	2.2233
2002	6.6957	0.4599	2.2997	1.0000	2.2037
2003	6.7957	0.4597	2.2983	1.0000	2.2037
2004	6.7957	0.4597	2.2983	1.0000	2.2037
2005	6.7757	0.4597	2.2983	1.0000	2.2037
2006	6.7557	0.4597	2.2987	0.9996	2.2037
2007	6.7357	0.4597	2.2987	0.9996	2.2037
2008	6.6957	0.4597	2.2987	0.9996	2.2037
2009	6.6957	0.4597	2.2987	0.9996	2.2037

Overlapping - School District

Year	Operating	Debt	Total	State Education
2001	18.0000	7.0000	25.0000	6.0000
2002	18.0000	7.0000	25.0000	6.0000
2003	18.0000	7.0000	25.0000	5.0000
2004	18.0000	7.0000	25.0000	6.0000
2005	18.0000	7.0000	25.0000	6.0000
2006	18.0000	7.0000	25.0000	6.0000
2007	18.0000	7.0000	25.0000	6.0000
2008	18.0000	5.5000	23.5000	6.0000
2009	18.0000	5.6000	23.6000	6.0000

Grand Total

Homestead	Non-Homestead
37.0666	55.0666
38.1376	56.1376
37.2348	55.2348
39.2342	57.2342
39.2129	57.2129
39.1906	57.1906
39.1659	57.1659
37.6256	55.6256
37.7254	55.7254

City of Muskegon
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Tax Collections as % of Levy	Charge backs			Outstanding Delinquent Specific	Outstanding Delinquent Personal	Percent of Delinquent Taxes to Levy
							On Uncollected Delinquent Taxes	Outstanding Delinquent Taxes	Outstanding Delinquent Specific			
2001	\$ 7,449,191	\$ 6,625,670	88.9%	\$ 88,768	\$ 6,714,438	90.1%	\$ 24,866	\$ 184,894	\$ 5,496	2.89%		
2002	7,922,898	7,036,846	88.8%	123,906	7,160,752	90.4%	30,056	168,666	15,700	2.71%		
2003	8,095,194	7,201,599	89.0%	710,353	7,911,952	97.7%	27,338	154,843	20,856	2.51%		
2004	8,292,451	7,230,231	87.2%	772,545	8,002,776	96.5%	36,179	82,305	22,655	1.70%		
2005	8,121,734	6,920,960	85.2%	1,027,932	7,948,892	97.9%	28,156	78,641	21,100	1.57%		
2006	8,207,019	7,231,508	88.1%	885,675	8,117,183	98.9%	13,461	65,297	24,539	1.26%		
2007	8,542,477	7,509,102	87.9%	949,754	8,458,856	99.0%	-	67,586	20,748	1.03%		
2008	8,466,096	7,219,540	85.3%	1,135,738	8,355,278	98.7%	36,917	73,430	37,388	1.75%		
2009	8,700,017	7,522,462	86.5%	1,102,891	8,625,353	99.1%	25,755	73,440	34,758	1.54%		

SOURCE: City of Muskegon Treasurer' Office

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

Most recent Year and Ten Years Previous

Period Ended June 30, 2010

Period Ended December 31, 2010

Taxable income per Return Individual and Joint Returns	# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars
Resident Taxpayers: <i>(City resident income, after exemptions, exclusions and deductions is taxed at a flat rate of 1%.)</i>					
\$2,500 or less	1,210	6%	\$ 511,340	\$ 5,113	0%
\$2,501-\$7,500	782	4%	2,899,922	28,999	1%
\$7,501-\$25,000	1,909	10%	22,609,665	226,097	7%
\$25,001-\$50,000	1,475	7%	40,001,838	400,018	12%
\$50,001-\$100,000	839	4%	42,561,878	425,619	13%
More than \$100,000	151	1%	19,067,457	190,675	6%
Subtotal	6,366	32%	\$ 127,652,100	\$ 1,276,521	38%

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

\$2,500 or less	1,791	9%	\$ 995,800	\$ 4,006	0%
\$2,501-\$7,500	1,069	5%	5,073,800	20,412	1%
\$7,501-\$25,000	2,838	14%	45,984,600	185,001	5%
\$25,001-\$50,000	3,289	16%	120,403,000	484,394	14%
\$50,001-\$100,000	2,366	12%	157,034,800	631,767	19%
More than \$100,000	444	2%	58,316,200	234,612	7%
Subtotal	11,797	59%	\$ 387,808,200	\$ 1,560,192	46%

All Other Returns

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

Subtotal	1,800	9%	\$ 530,956	\$ 769,276	11%
Total	19,963	100%	\$ 3,367,669	\$ 7,078,571	100%

NOTE: Due to confidentiality issues, the names of the ten largest income tax payers are not available. The categories presented are intended to provide alternative information regarding sources of the City's revenue.

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

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percent of Personal Income	Per Capita
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business-Type Activities			
2001	\$ 4,425,000	\$ 2,395,000	\$ 1,276,900	\$ 8,096,900	\$ 10,140,000	\$ 8,262,203	\$ -	\$ 18,402,203	\$ 26,499,103	4.4%	\$ 661
2002	3,735,000	1,835,000	1,276,900	6,846,900	9,750,000	7,038,014	-	16,788,014	23,634,914	3.8%	589
2003	4,565,000	1,460,000	1,126,900	7,151,900	9,345,000	5,886,923	-	15,231,923	22,383,823	3.6%	562
2004	3,700,000	1,140,000	976,900	5,816,900	8,925,000	4,779,656	8,483,766	22,188,422	28,005,322	4.4%	703
2005	3,615,824	865,000	1,282,976	5,763,800	8,490,000	3,606,017	13,900,000	25,996,017	31,759,817	4.8%	797
2006	8,246,039	615,000	1,356,900	10,217,939	8,035,000	2,454,101	13,335,000	23,824,101	34,042,040	5.0%	855
2007	7,444,118	395,000	1,136,900	8,976,018	7,565,000	1,221,207	12,760,000	21,546,207	30,522,225	4.5%	766
2008	6,844,970	215,000	1,416,900	8,476,870	7,075,000	-	12,170,000	19,245,000	27,721,870	4.1%	696
2009	6,623,499	70,000	1,120,000	7,813,499	6,565,000	-	11,570,000	18,135,000	25,948,499	3.8%	659
2010*	6,444,605	-	1,065,428	7,510,033	5,995,000	-	11,570,000	17,565,000	25,075,033	3.7%	639

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

NOTE: None of the debt issued by the City is payable through the levy of property tax millages.

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

City of Muskegon

DIRECT AND OVERLAPPING DEBT

June 30, 2010*

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	City General Taxes
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 17,565,000	\$ 17,565,000	\$ -
Special Assessment Bonds	-	-	-
Capital Improvement Bonds	6,110,000	-	6,110,000
Intergovernmental Bonds	1,065,428	-	1,065,428
Act 99 Installment Purchase	334,605	-	334,605
Component Unit Debt:			
Downtown Development Authority	3,245,000	3,245,000	-
Local Development Finance Authority	4,485,000	4,485,000	-
Total City Direct Debt	\$ 32,805,033	\$ 25,295,000	\$ 7,510,033
	Gross	City Share as Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 34,891,459	94.48%	\$ 32,965,450
Orchard View School District	46,404,704	25.95%	12,042,021
Reeths Puffer School District	67,227,033	10.65%	7,159,679
Muskegon Intermediate School District	-	0.00%	-
Muskegon County	20,519,000	15.66%	3,213,275
Muskegon Community College	14,920,000	15.66%	2,336,472
Total Overlapping Debt	\$ 183,962,196		57,716,898
Total City Direct and Overlapping Debt			\$ 65,226,931

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

NOTE: None of the debt issued by the City is payable through the levy of property tax millages.

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

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

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Debt Limit	\$ 73,312,880	\$ 74,726,405	\$ 76,377,881	\$ 75,663,530	\$ 76,252,738	\$ 78,773,640	\$ 84,174,359	\$ 85,933,940	\$ 82,198,965	\$ 82,198,965
Total net debt applicable to limit	7,232,900	11,066,900	9,726,900	9,191,900	9,918,800	16,142,939	15,591,018	15,481,870	14,778,499	14,435,033
Legal debt margin	\$ 66,079,980	\$ 63,659,505	\$ 66,650,981	\$ 66,471,630	\$ 66,333,938	\$ 62,630,701	\$ 68,583,341	\$ 70,452,070	\$ 67,420,466	\$ 67,763,932

Total net debt applicable to the limit as a percentage of debt limit

	9.87%	14.81%	12.74%	12.15%	13.01%	20.49%	18.52%	18.02%	17.98%	17.56%
--	-------	--------	--------	--------	--------	--------	--------	--------	--------	--------

Legal Debt Margin Calculation for 2010*:

Assessed Valuation:	\$ 821,989,650
Legal Debt Limit (10%)	82,198,965
Total Indebtedness:	\$ 32,805,033
Debt not Subject to Limitation:	
Paid by Special Assessment	(805,000)
Revenue Bonds	(17,565,000)
Debt Subject to Limitation	14,435,033
Legal Debt Margin	\$ 67,763,932

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

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

City of Muskegon
REVENUE BOND COVERAGE
Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2001	\$ 4,263,107	\$ 3,203,080	\$ 1,060,027	\$ 370,000	\$ 471,301	\$ 841,301	1.26
2002	4,051,015	3,030,959	1,020,056	390,000	453,666	843,666	1.21
2003	4,183,015	3,539,690	643,325	405,000	417,559	822,559	0.78
2004	5,016,267	3,186,067	1,830,200	420,000	411,867	831,867	2.20
2005	7,017,844	3,197,232	3,820,612	435,000	418,549	853,549	4.48
2006	6,424,971	3,172,882	3,252,089	1,020,000	662,774	1,682,774	1.93
2007	6,705,739	3,404,649	3,301,090	1,045,000	632,036	1,677,036	1.97
2008	6,336,135	3,407,903	2,928,232	1,080,000	600,377	1,680,377	1.74
2009	5,906,313	3,498,263	2,408,050	1,110,000	567,462	1,677,462	1.44
2010*	2,904,735	1,575,275	1,329,460	535,000	271,522	806,522	1.65

Sewage Disposal System

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2001	\$ 3,991,295	\$ 2,656,382	\$ 1,334,913	\$ 399,933	\$ 197,169	\$ 597,102	2.24
2002	4,039,448	2,726,975	1,312,473	458,918	137,622	596,540	2.20
2003	4,077,482	2,649,454	1,428,028	473,329	132,214	605,543	2.36
2004	4,096,412	3,038,939	1,057,473	455,179	110,520	565,699	1.87
2005	4,182,115	3,128,119	1,053,996	522,956	114,388	637,344	1.65
2006	4,842,901	4,270,296	572,605	511,626	63,233	574,859	1.00
2007	5,213,140	4,435,211	777,929	506,822	25,221	532,043	1.46
2008	5,338,647	4,979,343	359,304	546,278	12,550	558,828	0.64
2009				No System Indebtedness			
2010*				No System Indebtedness			

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

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

City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School		Building Permits		Unemployment
					Enrollment	Number	Value	Number	
2001	40,105	\$ 601,818,713	\$ 15,006	32.3	6,761	893	\$ 26,052,549	9.3%	
2002	40,105	616,864,181	15,381	32.3	6,603	1,008	39,705,174	12.1%	
2003	39,825	627,871,373	15,766	32.3	6,327	1,061	21,369,545	13.9%	
2004	39,825	643,568,157	16,160	32.3	6,088	1,152	37,963,075	11.1%	
2005	39,825	659,657,361	16,564	32.3	5,862	966	30,041,025	9.0%	
2006	39,825	676,148,795	16,978	32.3	5,625	1,063	27,328,144	8.6%	
2007	39,825	693,052,515	17,402	32.3	5,534	941	36,129,064	9.5%	
2008	39,825	710,378,828	17,838	32.3	5,361	946	23,001,998	11.5%	
2009	39,401	720,386,117	18,283	32.8	5,931	909	18,417,289	16.2%	
2010	39,259	735,734,614	18,741	32.8	5,931	374	11,900,915	17.8%	

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

**City of Muskegon
PRINCIPAL EMPLOYERS**

Current Year and Nine Years Ago

Employer	2010				2001			
	Employees	Rank	Percentage of total City employment	Rank	Employees	Rank	Percentage of total City employment	
Mercy General Health Partners	3,227	1	17.9%		1,300	1	7.1%	
County of Muskegon	980	2	5.4%		650	5	3.6%	
State of Michigan	772	3	4.3%		901	3	4.9%	
Muskegon Public Schools	697	4	3.9%		550	6	3.0%	
Johnson Technology	474	5	2.6%		550	6	3.0%	
Knoll Group	450	6	2.5%		-	-	0.0%	
Baker College	430	7	2.4%		-	-	0.0%	
ADAC Plastics	400	8	2.2%		480	7	2.6%	
Verizon	325	9	1.8%		350	9	1.9%	
City of Muskegon	281	10	1.6%		-	-	0.0%	
Brunswick	180	-	0.0%		400	8	2.2%	
Hackley Hospital	-	-	0.0%		1,000	2	5.5%	
Sappi Fine Paper	-	-	0.0%		740	4	4.1%	

SOURCE: City of Muskegon; Muskegon Area First; Michigan Department of Energy, Labor & Economic Growth

City of Muskegon

BUDGETED FULL-TIME CITY GOVERNMENT POSITIONS BY DEPARTMENT

Last Ten Fiscal Years

Department	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Administration	1.70	1.50	1.50	1.50	1.50	1.50	1.50	1.50	-	-
Affirmative Action	1.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Cemetaries	3.52	3.52	3.52	3.52	3.52	3.00	3.25	3.25	3.25	2.50
City Assessors Office	-	-	-	-	-	-	-	-	-	-
City Clerk & Elections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00
City Commission	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
City Hall Maintenance	1.20	1.25	1.20	1.00	1.00	1.00	1.00	1.00	1.00	1.00
City Manager's Office	3.05	2.75	1.75	1.75	1.75	1.75	1.75	1.75	3.25	2.25
City Treasurer's Office	6.00	6.00	6.00	5.00	5.00	5.00	4.00	5.00	5.00	5.00
Civil Service	2.00	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Community Event Support	0.60	0.20	0.20	-	-	-	-	-	-	-
Environmental Services	4.00	4.00	4.00	3.50	2.00	2.00	2.00	2.00	2.00	2.00
Farmers Market	0.12	0.12	0.12	0.12	-	-	-	-	0.05	0.05
Finance Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00
Fire	44.00	44.00	43.00	41.00	40.00	38.00	38.00	38.00	38.00	36.00
Fire Safety Inspections	13.00	12.00	13.00	12.00	10.00	12.00	12.00	12.00	12.00	9.00
Forestry	2.68	2.18	1.93	0.93	-	-	-	-	-	-
General Recreation	0.78	0.78	2.24	1.24	1.00	1.17	1.33	1.66	1.66	2.00
Income Tax Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Information Systems	3.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00
Inner City Recreation	1.46	1.46	-	-	-	-	-	-	-	-
Parking	0.30	0.30	0.30	-	-	-	-	-	-	-
Parks	11.53	11.53	10.53	9.68	8.48	8.25	8.15	8.15	7.99	7.15
Planning, Zoning & Economic Development	7.50	7.50	7.50	6.50	6.00	6.00	6.00	6.00	6.00	5.00
Police	102.00	102.00	96.00	94.00	94.00	94.00	94.00	94.00	94.00	88.00
Sanitation	1.10	1.25	1.25	1.10	1.10	1.00	1.00	1.00	1.00	-
MVH-Major Streets	13.75	14.70	15.30	15.45	15.25	16.00	17.75	15.75	13.75	12.00
MVH-Local Streets	7.40	7.20	7.20	7.00	7.00	7.00	7.00	6.00	8.00	7.00
MVH-State Trunklines	1.60	1.60	1.60	2.00	2.00	2.00	-	-	-	-
Street Lighting	0.10	0.10	-	-	-	-	-	-	-	-
Walker Arena	0.12	0.12	0.12	0.12	-	-	-	-	-	-
Community Development	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00
Home Program	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.25
Lead Program	-	-	-	-	-	-	-	-	-	0.75
Sewer Maintenance	14.40	14.40	15.15	14.55	15.05	16.00	16.20	15.20	13.20	10.20
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Water Maintenance	15.65	15.65	15.65	15.15	14.65	13.00	12.50	13.50	15.40	12.40
Hartshorn Marina Fund	0.79	0.79	0.79	0.79	0.67	0.73	0.67	0.34	0.05	0.05
Public Service Building	3.30	3.30	3.30	3.65	3.85	3.45	3.45	3.45	3.70	8.95
Engineering	9.40	9.35	9.40	7.70	7.70	7.45	7.45	7.45	7.45	5.45
Equipment	7.70	7.70	7.70	8.00	8.00	8.95	8.25	8.25	8.50	7.25
	314.00	315.00	308.00	294.00	284.00	284.00	282.00	280.00	280.00	256.00

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: City of Muskegon Finance Department

City of Muskegon

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Administrative Services										
Elections										
Number of registered voters	23,457	23,931	23,904	25,261	25,918	26,028	26,345	27,678	26,136	26,136
Number of votes cast:										
Last general election	12,054	8,916	8,916	14,169	14,169	10,410	10,410	15,271	15,271	15,271
Last city election	3,840	3,840	4,325	4,325	4,022	4,022	1,101	1,101	2,254	2,254
Percentage of registered voters voting:										
Last general election	51%	37%	37%	56%	55%	40%	40%	55%	58%	58%
Last city election	16%	16%	18%	17%	16%	15%	4%	4%	9%	9%
Financial Services										
Property Tax Bills										
Property Tax Returns	15,804	15,586	15,428	15,403	15,404	15,354	15,376	15,350	15,435	-
Income Tax Returns	N/A	25,135	25,043	24,378	23,884	23,493	23,141	22,598	21,071	19,963
Paper Check Issued to Vendors	3,922	4,012	3,784	3,405	3,205	3,248	3,347	3,346	3,113	1,486
Electronic Payments to Vendors	662	651	746	752	828	800	772	763	963	450
Public Safety										
Fire Protection										
Number of firefighter and officer positions	45	44	42	41	41	41	41	41	37	37
Number of emergency calls	3,818	3,878	3,656	4,116	4,206	4,092	4,171	4,298	4,220	2,062
Police Protection										
Number of sworn officer positions	91	85	83	83	83	84	84	84	79	79
Part I (Major) Crimes	3,429	3,504	2,971	3,360	3,303	3,495	2,997	3,107	3,071	1,305
Public Works										
Refuse Collected (Tons per Year)	11,718	11,420	11,780	11,925	11,074	11,192	10,375	10,401	10,526	6,042
Recyclables Collected (Tons per Year)	838	808	775	779	588	559	629	626	309	-
Water & Sewer										
Number of consumers										
Average daily water consumption (GPD)	9,877,000	9,453,000	9,453,000	8,870,000	9,582,000	8,998,000	9,314,000	8,879,000	7,976,000	7,163,000
Water main breaks repaired	12	12	19	10	5	13	21	34	17	6
Sewer flows (Millions Gallons per Year)	1,994	1,477	1,387	1,475	1,700	2,040	1,945	2,181	1,979	965
Sewer Service Calls	799	661	624	568	638	605	598	533	508	263

* The City changed its fiscal year end from December 31 to June 30.

SOURCE: City of Muskegon Departments

City of Muskegon

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Public Safety										
Fire Protection										
Number of stations	3	3	3	3	3	3	3	3	3	3
Police Protection										
Number of stations	1	1	1	1	1	1	1	1	1	1
Highways, Streets and Bridges										
Miles of Streets	197.52	197.39	197.96	196.95	196.95	197.48	197.79	197.79	196.95	196.95
Number of streetlights	3,111	3,114	3,123	3,111	3,159	3,159	3,134	3,134	3,192	3,125
Culture and Recreation										
Number of parks (acres)	612	612	701	701	701	701	701	701	701	701
Lake Michigan beaches (acres)	119	119	119	119	119	119	119	119	119	119
Hockey/Entertainment Arena	1	1	1	1	1	1	1	1	1	1
Sewer										
Sanitary sewers (miles)	175.01	175.33	175.33	178.02	179.41	175.74	177.04	177.04	177.04	177.04
Storm sewers (miles)	178.29	178.57	178.57	178.61	179.23	180.48	183.25	183.60	184.35	184.35
Water										
Water mains (miles)	192.60	193.09	193.66	194.14	194.14	194.15	195.63	195.58	195.69	195.69

* The City changed its fiscal year end from December 31 to June 30. 2010 figures are for six months.

SOURCE: City of Muskegon Departments

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

November 5, 2010

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the six months ended June 30, 2010 and have issued our report thereon dated November 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

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

Brickley De Long, P.C.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 5, 2010

City Commission
City of Muskegon
Muskegon, Michigan

Compliance

We have audited the City of Muskegon's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Muskegon's major federal programs for the six months ended June 30, 2010. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the six months ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as Finding 2010-1 in Section III of the accompanying Schedule of Findings and Responses.

Internal Control Over Compliance

Management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Responses, as Finding 2010-1 to be a material weakness.

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

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

Brickley De Long, P.C.

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the six months ended June 30, 2010

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2010	Notes
U.S. Department of Housing and Urban Development							
Direct programs							
Community Development Block Grant	14.218						
B-09-MC-26-0026		\$ 999,433	\$ 484,867	\$ 570,796	\$ 254,409	\$ 168,480	
Program Income		2,436	-	2,436	2,436	-	
Total Community Development Block Grant		1,001,869	484,867	573,232	256,845	168,480	4
ARRA - Community Development Block Grant - Recovery	14.253						
B-09-MY-26-0026		267,182	-	47,483	165,760	118,277	4
Home Investment Partnership Program							
M-06-MC-26-0215	14.239	301,767	2,100	2,100	-	-	
M-08-MC-26-0215		290,049	63,537	63,537	-	-	
M-09-MC-26-0215		322,469	135,885	202,897	143,912	76,900	
Program Income		75,434	-	75,434	75,434	-	
Total Home Investment Partnership Program		989,719	201,522	343,968	219,346	76,900	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900						
FR-5100-N-20A		2,079,492	938	-	-	938	
Program Income		11,254	-	11,254	11,254	-	
Total Lead-Based Paint Hazard Control in Privately-Owned Housing		2,090,746	938	11,254	11,254	938	
Total direct programs		4,349,516	687,327	975,937	653,205	364,595	
Passed through Michigan Department of Housing Development Authority							
Community Development Block Grant	14.218						
Neighborhood Stabilization Program		570,460	195,642	134,482	265,495	326,655	
NSP-2008-0280-ENT		820	-	820	820	-	
Program Income		571,280	195,642	135,302	266,315	326,655	4
Total Neighborhood Stabilization Program		571,280	195,642	135,302	266,315	326,655	
Total U.S. Department of Housing and Urban Development		4,920,796	882,969	1,111,239	919,520	691,250	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the six months ended June 30, 2010

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2010	Notes
U.S. Department of Justice							
Direct programs							
Bulletproof Vest Partnership Grant	16.607	\$ 7,788	\$ -	\$ -	\$ 53	\$ 53	
2007 Grant		5,563	-	-	5,479	5,479	
2008 Grant		13,351	-	-	5,532	5,532	
Justice Assistance Grant	16.738	81,109	36,088	75,780	39,692	-	
2009-DJ-BX-0692							
Total direct programs							
Passed through Grand Valley State University	16.609	94,460	36,088	75,780	45,224	5,532	
Project Safe Neighborhood							
2009-GP-GX-0041		5,000	-	5,000	5,000	-	
Passed through Ottawa County	16.738	36,799	-	26,315	35,445	9,130	
WEMET Multi-Jurisdictional Drug Enforcement CO-OP							
70834-210B							
Passed through Muskegon County	16.804	218,169	-	24,760	28,296	3,536	
ARRA - Justice Assistance Grant							
2009-SB-B9-1824							
Total U.S. Department of Justice							
		354,428	36,088	131,855	113,965	18,198	
U.S. Department of Energy							
Direct programs							
Energy Efficiency and Conservation Block Grant	81.128	181,600	(181,280)	-	18,551	(162,729)	
041714125							

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the six months ended June 30, 2010

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2010	Notes
<i>U.S. Department of Health and Human Services</i> Passed through the Michigan Department of State Voting Access for Individuals with Disabilities Program	93.617	\$ 16,750	\$ 16,750	\$ 16,750	\$ -	\$ -	
<i>U.S. Department of Homeland Security</i> Direct programs Assistance to Firefighters EMW-2009-FP-00389	97.044	9,000	-	-	9,000	9,000	
TOTAL FEDERAL ASSISTANCE		\$ 5,482,574	\$ 754,527	\$ 1,259,844	\$ 1,061,036	\$ 555,719	

The accompanying notes are an integral part of this schedule.

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the six months ended June 30, 2010

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. The following is a reconciliation of federal revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances of the City of Muskegon financial statements for the six months ended June 30, 2010 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements	
General Fund	\$ 122,965
Major Street and Trunkline Fund	9,443
Other governmental funds	<u>848,127</u>
	<u>980,535</u>
Plus program income	89,944
Less MDOT contracted projects as shown below	<u>(9,443)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 1,061,036</u>

3. The Michigan Department of Transportation (MDOT) requires that cities report all federal and state grants pertaining to their city. During the six months ended June 30, 2010, the federal aid received and expended by the City was \$9,443 for contracted projects as shown below. Contracted projects are defined as projects performed by private contractors and paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out.

U.S Department of Transportation, Federal Highway Administration (contracted projects)

	Federal CFDA number	Revenue Recognized	Federal Expenditures
Passed through the Michigan Department of Transportation Highway Planning and Construction Program Proj STP 1061 (309) Fed Item RR7077 Contract 10-5009	20.205	\$ 9,443	\$ 9,443
Total U.S. Department of Transportation, Federal Highway Administration (contracted projects)		<u>\$ 9,443</u>	<u>\$ 9,443</u>

4. Community Development Block Grant cluster

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Six months ended June 30, 2010

SECTION I—SUMMARY OF AUDITORS' RESULTS

A. Financial Statements

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

B. Federal Awards

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

4. Identification of major programs:

CFDA Number(s)

Name of Federal Program/Cluster

**14.218 and 14.253
14.239**

**U.S. Department of Housing and Urban Development
CDBG Entitlement Grant Cluster
Home Investment Partnership Program**

5. Dollar threshold used to distinguish between type A and type B programs: **\$150,000 (6-month period)**
6. Auditee qualified as low-risk auditee? _____ yes X no

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Six months ended June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Housing and Urban Development

Finding 2010-1: CDBG Entitlement Grant Cluster

CFDA: 14.218 and 14.253

Award Number: B-09-MC-26-0026, B-09-MY-26-0215, NSP-2008-0280-ENT

Award Year End: June 30, 2010

Home Investment Partnership Program

CFDA: 14.239

Award Number: M-09-MC-26-0215

Award Year End: June 30, 2010

Specific Requirement: Allowable Costs/Cost Principles

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

Condition: During our detailed testing, we noted that none of the employees whose wages and benefits were charged to either grant had proper time and effort documentation.

Questioned Costs: \$140,316 and \$19,647 for CDBG Entitlement Grant Cluster and Home Investment Partnership Program, respectively, which represents the portion of salaries and benefits charged to the grants for all employees who did not have adequate documentation.

Context: None of the employees, for which personnel activity reports or semi-annual certifications were required, had adequate documentation.

Effect: The salaries and benefits charged to the CDBG Entitlement Grant Cluster and Home Investment Partnership Program could be disallowed.

Cause: The City became aware of time documentation requirements during the six month period under audit, but did not fully implement the requirements.

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

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding. The City recognizes this federal requirement and has put in place procedures to better document employee time allocations.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 5, 2010

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended December 31, 2009 dated April 5, 2010.

SECTION II – FINANCIAL STATEMENT FINDINGS

2009 Finding No. 1: MATERIAL WEAKNESS—Grant Revenue Recognition Procedures

Condition: Grant revenues were not properly recorded which caused grant revenues and receivables to be misstated as of the year end.

Recommendation: Year end procedures for reconciling grant receivables and associated revenues should be improved.

Current Status: The City implemented this recommendation during the period under audit. **No** similar finding was reported for the single audit for the six months ended June 30, 2010.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Housing and Urban Development

2009 Finding No. 2: Community Development Block Grant

CFDA: 14.218

Award Number: B-08-MC-26-0026, B-09-MC-0026, NSP-2008-0280-ENT

Award Year End: December 31, 2009

Lead-Based Paint Hazard Control in Privately-Owned Housing Grant

CFDA: 14.900

Award Number: FR-5100-N-20A

Award Year End: December 31, 2009

Specific Requirement: Allowable Costs/Cost Principles

Condition: During our detailed testing, we noted that none of the employees whose wages and benefits were charged to either grant had proper time and effort documentation.

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

City Response: See Finding 2010-1 in the Schedule of Findings and Responses for the six months ended June 30, 2010 for a similar finding reported.

Sincerely,



Timothy J. Paul
Finance Director

CORRECTIVE ACTION PLAN

November 5, 2010

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended June 30, 2010.

Name and address of independent public accounting firm:

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

Audit period: June 30, 2010

The finding from the Schedule of Findings and Responses for the six months ended June 30, 2010 is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

SECTION II – FINANCIAL STATEMENT FINDINGS

There were **no** findings in relation to the financial statements.

U.S. Department of Housing and Urban Development
November 5, 2010
Page 2

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Housing and Urban Development

Finding 2010-1: CDBG Entitlement Grant Cluster

CFDA: 14.218 and 14.253

Award Number: B-09-MC-26-0026, B-09-MY-26-0215, NSP-2008-0280-ENT

Award Year End: June 30, 2010

Home Investment Partnership Program

CFDA: 14.239

Award Number: M-09-MC-26-0215

Award Year End: June 30, 2010

Specific Requirement: Allowable Costs/Cost Principles

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

Action Taken: The City recognizes this federal requirement and has put in place procedures to better document employee time allocation.

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

Sincerely,



Timothy J. Paul
Finance Director