

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Fiscal Year Ended June 30, 2012

www.shorelinecity.com

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2012**

Prepared By

FINANCIAL SERVICES DIVISION

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Director of Finance**

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Assistant Finance Director**

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Income Tax Administrator**

**Derrick Smith
City Treasurer**

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Information Systems Director**

**Kathy Coleman
Finance & Payroll Coordinator**

Cover Photo: September rainbow at Muskegon's Pere Marquette Beach.

City of Muskegon

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal 5
Certificate of Achievement for Excellence in Financial Reporting 12
Organization Chart..... 13
List of Principal Officials..... 14

FINANCIAL SECTION

Independent Auditors’ Report..... 17
Management’s Discussion and Analysis..... 19
Basic Financial Statements
Government-wide Financial Statements
Statement of Net Assets (Deficits) 32
Statement of Activities 33
Fund Financial Statements
Governmental Funds
Balance Sheet 34
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets 35
Statement of Revenues, Expenditures and Changes
in Fund Balances..... 36
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of
Activities 37
Proprietary Funds
Statement of Net Assets 38
Statement of Revenues, Expenses and Changes in Fund Net Assets 39
Statement of Cash Flows..... 40
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities..... 41
Component Units
Statement of Net Assets (Deficits) 42
Statement of Activities 43
Notes to Financial Statements 44
Required Supplementary Information
Budgetary Comparison Schedule—General Fund..... 70
Budgetary Comparison Schedule—Major Street and Trunkline Fund..... 76
Schedule of Funding Progress 77

City of Muskegon

TABLE OF CONTENTS

Other Supplemental Information

Other Governmental Funds

 Description of Other Governmental Funds 80

 Combining Balance Sheet 82

 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances 83

Other Special Revenue Funds

 Combining Balance Sheet 84

 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances 85

 Budgetary Comparison Schedule—Other Special Revenue Funds 86

Other Capital Projects Funds

 Combining Balance Sheet 88

 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances (Deficits)..... 89

Internal Service Funds

 Description of Internal Service Funds 91

 Combining Statement of Net Assets..... 92

 Combining Statement of Revenues, Expenses and
 Changes in Fund Net Assets (Deficit)..... 93

 Combining Statement of Cash Flows 94

Fiduciary Funds

 Description of Fiduciary Funds 95

Agency Funds

 Combining Statement of Assets and Liabilities 96

 Statement of Changes in Assets and Liabilities 97

Component Units

 Description of Component Units..... 99

 Combining Balance Sheet 100

 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets (Deficits) 101

 Combining Statement of Revenues, Expenditures and Changes
 in Fund Balances (Deficit) 102

 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances (Deficit) to the Statement
 of Activities 103

Schedule of Indebtedness 105

City of Muskegon

TABLE OF CONTENTS

STATISTICAL SECTION

Financial Trends

Net Assets by Component 110
Changes in Net Assets 111
Fund Balances of Governmental Funds..... 113
Changes in Fund Balances of Governmental Funds..... 114

Revenue Capacity

Governmental Activities Revenues by Source 115
Taxable, Assessed and Equalized and Estimated Actual Valuation of Property 116
Principal Property Taxpayers 117
Property Tax Rates – Direct and Overlapping Government Units 118
Property Tax Levies and Collections..... 119
Segmented Data on Income Tax Filers, Rates and Liability 120

Debt Capacity

Ratio of Outstanding Debt by Type..... 121
Direct and Overlapping Debt..... 122
Legal Debt Margin Information..... 123
Revenue Bond Coverage 124

Demographic and Economic Information

Demographic and Economic Statistics 125
Principal Employers..... 126

Operation Information

Full-time Equivalent Government Employees 127
Operating Indicators by Function/Program 128
Capital Asset Statistics by Function/Program 129

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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*..... 132

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-133 134

Schedule of Expenditures of Federal Awards 136

Notes to Schedule of Expenditures of Federal Awards 138

Schedule of Findings and Responses 139

Client Documents

Summary Schedule of Prior Audit Findings 142

Corrective Action Plan..... 143

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
(231)724-4100
FAX (231)722-
4188

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

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October 23, 2012

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 fiscal year ended June 30, 2012. 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 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.

City of Muskegon, 933 Terrace Street, P.O. Box 536, Muskegon, MI 49443-0536
<http://www.shorelinecity.com>

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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 2010 census population of 38,401, 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. 2012 marks the ferry service's ninth 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 the *Bike Time* festival which attracts motorcycle enthusiasts to the City each July, the Unity Christian Music Festival and Irish Fest.
- 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
 - *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.

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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.

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 has a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, defense, 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. Even though these institutions are exempt from paying property taxes, local income tax withholdings remitted by these employers provide stability to City finances in times of economic weakness.

In December 2011 Consumers Energy, the City's largest property taxpayer, announced plans to close its sixty-four year-old B.C. Cobb electric generating facility in January 2015 due to age, stricter pollution regulations and slowing electric demand. The facility accounts for about 10% of total City property tax revenues so the closure will have a significant impact on municipal operations. During the fiscal year the City also settled a major tax appeal on the B.C. Cobb plant resulting in a tax refund payment of more than \$900,000. The City has reforecast its FY 2012-13 budgets to account for the short-term loss of property tax revenue and is actively planning longer-term strategies to deal with the ultimate closure of the plant.

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On a more positive note, the local economy saw measurable improvement in FY2012 as reflected in the growth of city income tax revenues which were up more than twelve percent from the prior fiscal year. Most recently, the State of Michigan reopened the West Shore Correctional Facility bringing 250 state jobs back to the City. This facility is also a major user of water and sewer services.

The City fully recognizes the magnitude of financial challenges it faces due to the pending loss of its largest property tax payer. We have worked to position ourselves to be in as strong position as possible to face this challenge: the City's General Fund balance has never been healthier, pension and retiree healthcare costs are under control and debt levels are manageable.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in fiscal year 2011-12 were the following:

- Economic development activity picked up dramatically from recent years as evidenced by several new projects:
 - A new Social Security Office center was constructed in the downtown;
 - A \$20 million, 70,000 square foot manufacturing addition at ADAC Automotive was started that will create 130 new jobs;
 - A \$15 million expansion of the Betten Auto dealerships was completed;
 - 65 new jobs were created through expansion of the Port City Group's manufacturing facilities;
 - The State of Michigan announced reopening of the West Shore Correctional Facility bringing back 250 jobs.
- Major steps were taken to ensure the future stability and viability of the City's critical water treatment operation:
 - The City reached a new 40-year water supply agreement with its current municipal customers. The agreement calls for the City to provide water to these customers at a rate equal to 1.25 times the rate charged to in-City customers;
 - The City also concluded a water supply agreement with two new large municipal customers it previously had not served – the City of Norton Shores and Fruitport Charter Township. Service to these two municipal customers will start in 2015 and their addition will allow the spreading of water treatment costs over a larger customer base while remaining well within the plant's rated treatment capacity.
- The City successfully replaced its sixteen year-old financial management systems with newer, more cost effective software. Implementation of the new software systems was accomplished on schedule and well within budget.

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- The City replaced its aging phone systems with state-of-the-art voice over internet protocol (VOIP) technology that will dramatically reduce future telecommunications costs.
- Work progressed on transforming the Russell Block Market building into a downtown market hosting eighteen to thirty start-up and small retailers of clothing, artwork and food.

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.

DEBT ADMINISTRATION

At June 30, 2012, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$31,795,140. Presently there are no plans to issue new debt. Standard & Poor's rates the City's general obligation debt **A+**. The City's water revenue bonds carry the **AA-** rating.

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PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City's defined benefit retirement benefits are administered by the statewide Municipal Employees Retirement System (MERS) of Michigan. The defined benefit program is closed to new employees and all hires since 2007 are covered by a defined contribution retirement program. As of the most recent actuarial report (December 31, 2011), the City's defined benefit retirement program is 97% funded.

The City also provides post-employment 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. The City has implemented the requirements of GASB statements 43 and 45 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." As of the most recent actuarial report (December 31, 2011), the City's retiree healthcare program is 76% funded.

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 June 30, 2011. This marked the twenty-sixth 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
June 30, 2011

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.

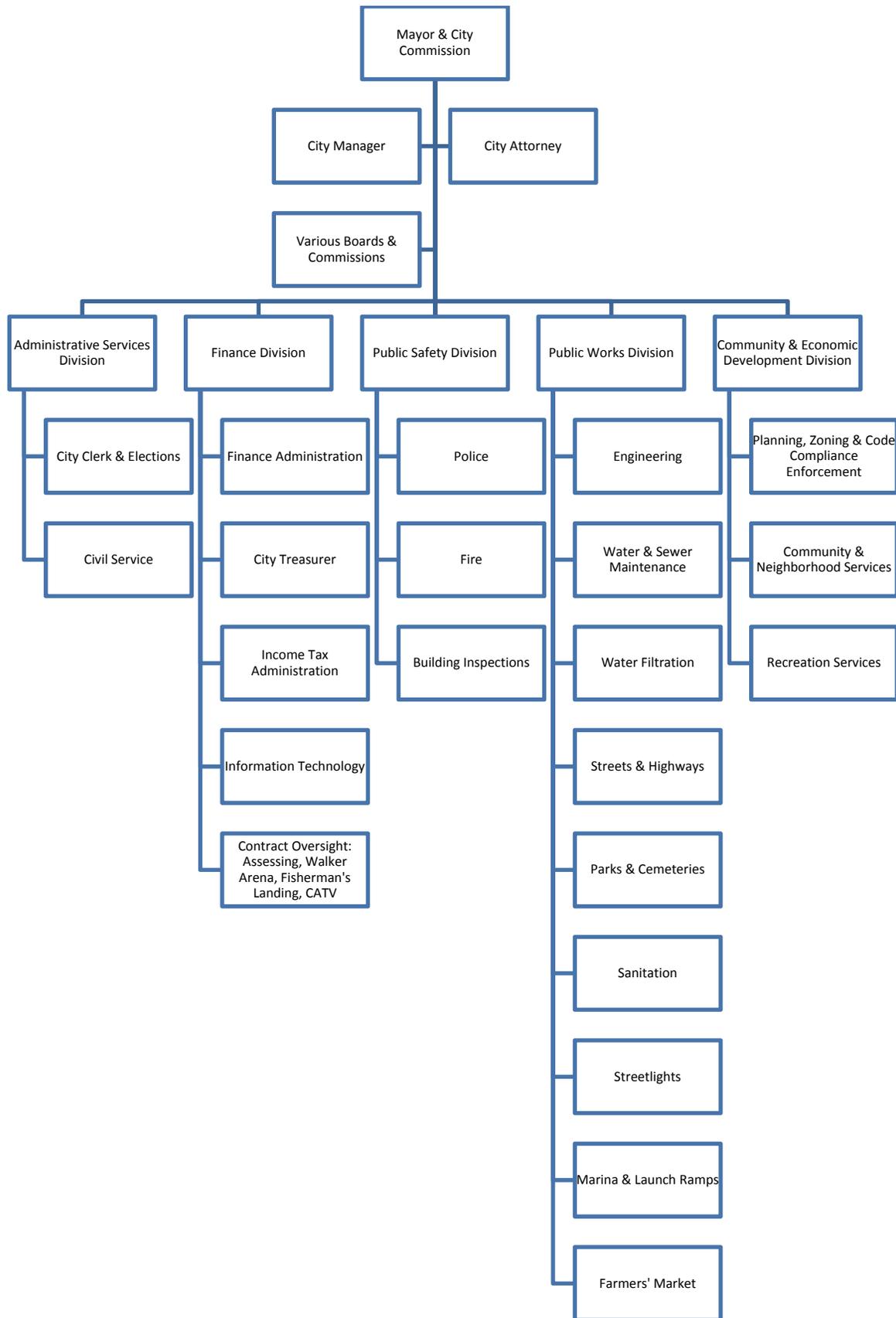


Linda C. Davison

President

Jeffrey R. Emer

Executive Director



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

June 30, 2012

ELECTED OFFICIALS

Mayor. Stephen J. Gawron
At Large

Vice Mayor-Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Eric Hood
Ward 1

Commissioner. Willie German
Ward 2

Commissioner. Byron Turnquist
Ward 4

Commissioner. Lea Markowski
At Large

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

October 23, 2012

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 year ended June 30, 2012, 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year 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 - 30 and 70 - 77 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
October 23, 2012
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.

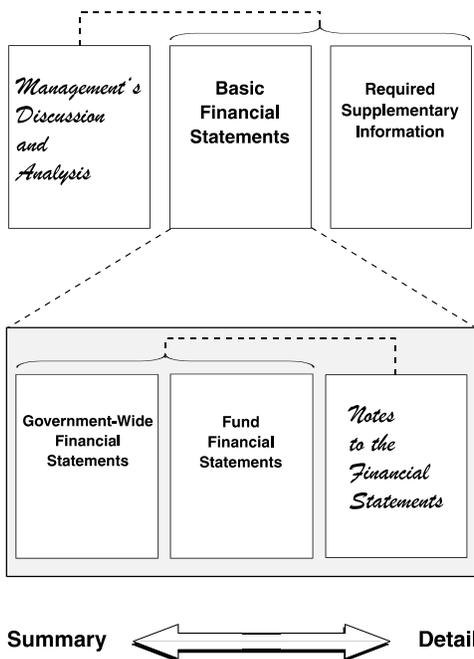
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Muskegon exceeded its liabilities by \$133,007,035 as of June 30, 2012. Of the total net assets, \$21,798,286 (16.4%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net assets decreased by \$1,495,867 during the year ended June 30, 2012 mostly due to normal depreciation of capital assets.
- The City's governmental funds reported combined ending fund balance of \$13,438,058, an increase of \$2,511,718 (23%) from the prior year. The increase is attributable to the receipt of proceeds from a \$2.0 million bond issue for street projects and to favorable General Fund operating results.
- The City's General Fund reported a total fund balance of \$6,520,045, an increase of \$508,663 from the prior year balance of \$6,011,382. The favorable increase is the result of higher than anticipated local income tax and state-shared revenues combined with tight budget controls.

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.

- *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 \$133,007,035 as of June 30, 2012. This is a decrease of \$1,495,867 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				
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011	
Current and other assets	\$22,690	\$20,011	\$10,581	\$10,904	\$33,271	\$30,915	7.62%
Capital assets	72,726	74,097	55,407	56,942	128,133	131,038	-2.22%
Total Assets	95,416	94,108	65,988	67,846	161,404	161,954	-0.34%
Long-term liabilities	8,452	6,919	14,115	15,423	22,567	22,342	1.01%
Other liabilities	3,738	2,990	2,092	2,120	5,830	5,110	14.09%
Total Liabilities	12,190	9,909	16,207	17,543	28,397	27,452	3.44%
Net Assets							
Invested in capital assets, net of related debt	66,863	67,945	40,148	40,420	107,011	108,365	-1.25%
Restricted	3,526	3,656	672	672	4,198	4,328	-3.00%
Unrestricted	12,837	12,598	8,961	9,211	21,798	21,809	-0.05%
Total Net Assets	\$83,226	\$84,199	\$49,781	\$50,303	\$133,007	\$134,502	-1.11%

The bulk of the City's net assets (\$107,010,406 or 80%) represent investments in capital infrastructure assets, less the remaining balance of debt issued to acquire those assets. These infrastructure assets are used to provide public services to citizens and are not available for spending.

Another 3.2% (\$4,198,343) of the City's net assets are legally restricted as to use. Remaining net assets (\$21,798,286) are unrestricted and may be used to meet the City's operating needs and ongoing obligations. The City's unrestricted net assets decreased slightly (\$11,521) during the year.

Changes in net assets. The City's total revenues were \$42,686,094 for the year ended June 30, 2012. This represents a 5.2% decrease from total revenues collected during the prior fiscal year. About 38% of the City's revenue stream came from charges to users of specific services such as water or sewer. Another 15% came from grants from the state and federal governments and 38% 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 year ended June 30, 2012 was \$44,181,961. This represents a 1% decrease from reported expenses for the last fiscal year ended June 30, 2011. 72% of the City's expenses were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining 28% represents the costs of the City's business-type activities, specifically, water, sewer and marina operations.

The table on the following page (*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.

As can be seen, net assets for governmental activities decreased \$973,842 while net assets for business-type activities decreased by \$522,025. These changes represent the downsizing of municipal operations in response to demographic and fiscal realities faced by the City.

Changes in City's Net Assets

(In thousands of dollars)

	Governmental		Business-Type		Total		Percentage Change
	Activities		Activities				
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011	
Program revenues							
Charges for services	\$4,246	\$4,418	\$11,918	\$12,302	\$16,164	\$16,720	-3.33%
Operating grants and contributions	4,652	5,425	-	-	4,652	5,425	-14.25%
Capital grants and contributions	1,568	2,257	-	20	1,568	2,277	-31.14%
General revenues							
Property taxes	8,383	8,844	-	-	8,383	8,844	-5.21%
Income taxes	7,664	6,867	-	-	7,664	6,867	11.61%
State shared revenues	3,578	3,847	-	-	3,578	3,847	-6.99%
All other	631	1,014	46	24	677	1,038	-34.78%
Total revenues	30,722	32,672	11,964	12,346	42,686	45,018	-5.18%
Governmental activities expenses							
Public representation	867	854	-	-	867	854	1.52%
Administrative services	566	646	-	-	566	646	-12.38%
Financial services	2,399	2,373	-	-	2,399	2,373	1.10%
Public safety	13,213	13,391	-	-	13,213	13,391	-1.33%
Public works	2,958	3,471	-	-	2,958	3,471	-14.78%
Highways, streets and bridges	6,569	7,013	-	-	6,569	7,013	-6.33%
Community and economic development	2,447	2,831	-	-	2,447	2,831	-13.56%
Culture and recreation	1,601	1,524	-	-	1,601	1,524	5.05%
General administration	792	794	-	-	792	794	-0.25%
Interest on long-term debt	283	273	-	-	283	273	3.66%
Business-type activities expenses							
Water	-	-	5,974	5,869	5,974	5,869	1.79%
Sewer	-	-	6,202	5,289	6,202	5,289	17.26%
Marina and Launch Ramp	-	-	310	293	310	293	5.80%
Total expenses	31,695	33,170	12,486	11,451	44,181	44,621	-0.99%
Change in net assets before transfers	(973)	(498)	(522)	895	(1,495)	397	-476.57%
Transfers	-	-	-	-	-	-	-
Change in net assets	(973)	(498)	(522)	895	(1,495)	397	-476.57%
Net assets at beginning of year	84,199	84,697	50,303	49,408	134,502	134,105	0.30%
Net assets at end of year	\$83,226	\$84,199	\$49,781	\$50,303	\$133,007	\$134,502	-1.11%

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 year ended June 30, 2012 was \$31,695,255.
- The net cost that City taxpayers paid for these activities through local property taxes and income taxes was \$16,046,758, or 51% 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		
	6/30/2012	6/30/2011	% Change	6/30/2012	6/30/2011	% Change
Governmental activities						
Public safety	\$13,213	\$13,391	-1.33%	\$11,910	\$12,046	-1.13%
Community and economic development	2,447	2,831	-13.56%	388	106	266.04%
Culture and recreation	1,601	1,524	5.05%	1,280	1,147	11.60%
Highways, streets and bridges	6,569	7,013	-6.33%	1,826	1,770	3.16%
Public works	2,958	3,471	-14.78%	2,468	2,817	-12.39%
All other	4,907	4,940	-0.67%	3,358	3,184	5.46%
Total governmental activities	\$31,695	\$33,170	-4.45%	\$21,230	\$21,070	0.76%

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 fiscal year ended June 30, 2012, the City's total business-type activities realized an overall decrease in net assets of \$522,025.

Sewer Fund net assets increased \$319,140 primarily as result of lower and more stable wholesale sewage treatment costs paid to Muskegon County. The Water Fund saw net assets decrease \$677,279. This falloff is attributable to lower consumption levels. Water rates were increased by 10% effective July 1, 2012 to offset this impact of this trend. Marina and Launch Ramp Fund net assets decreased \$98,293 due to lower operating revenues resulting from the impact of the economic downturn on recreational boating.

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 year ended June 30, 2012 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=13%)
6/30/2012	\$6,520,045	8.46%	\$25,556,758	25.51%
6/30/2011	6,011,382	-0.45%	24,850,082	24.19%
6/30/2010*	6,038,454	268.50%	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%

* 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 large one-time increase to the General Fund fund balance due to the fact that annual property taxes are collected in full during this period.

For the year ended June 30, General Fund revenues 2012 were \$353,135 higher than the final amended budget estimate. This positive revenue variance is due to higher than expected local income tax and state shared revenues.

General Fund expenditures were \$297,286 less than projected in the amended budget. Most 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. For the year ended June 30, 2012, the fund balance of the Major Street and Trunkline Fund increased \$1,966,337 which is attributable to the receipt of proceeds from a \$2.0 million bond issue for street projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the City and its component units had invested \$130,849,479 in a variety of capital assets, including land, streets, equipment, buildings, water and sewer lines, and vehicles. This is a decrease of \$3,078,029 from capital assets reported as of June 30, 2011. The decrease is due to normal depreciation. 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, 2012, the City had \$24,430,208 in bonds and other long-term obligations outstanding. This represents a 1.7% increase from the prior year. During the year the City issued \$2.0 million in street improvement bonds to provide local matching funds for state and federal highway grants.

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

Bond Ratings

The City's limited full faith and credit bonds (bonds guaranteed by the City's taxing powers) are rated "A+" by Standard & Poor's. The City's Water System revenue bonds carry the "AA-" S&P rating.

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

	Governmental		Business-Type		Total		Percentage
	Activities		Activities				Change
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011	
Due within one year	\$592	\$421	\$1,271	\$1,256	\$1,863	\$1,677	11.09%
Due in more than one year	8,452	6,919	14,115	15,423	22,567	22,342	1.01%
Total bonds & other obligations	\$9,044	\$7,340	\$15,386	\$16,679	\$24,430	\$24,019	1.71%

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 \$7,364,932 at year-end as shown in the table below. This represents a decrease of 1.5% from the prior year.

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
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011	Change
	Due within one year	\$275	\$265	\$180	\$80	\$455	\$345
Due in more than one year	2,534	2,813	4,376	4,321	6,910	7,134	-3.14%
Total bonds & other obligations	\$2,809	\$3,078	\$4,556	\$4,401	\$7,365	\$7,479	-1.52%

During the year, Local Development Finance Authority (LDFA) bonds were refunded resulting in net present value savings of \$405,546 or about 10% of the total bonds refunded.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2012-13 capital budget anticipates spending \$7,593,000 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. On September 30, 2011, the City issued \$2.0 million in bonds for the purpose of providing local matching funds for several significant street projects for which state and federal matching grants are available.

From an operating standpoint, the City's 2012-13 budget will entail continued program downsizing to better balance the City's operating expenses with recurring revenue streams:

- Through attrition the full-time personnel complement will be reduced from 241 positions to 233 positions.
- The Senior Transit program will be eliminated or a new funding source found to make it self-sufficient.
- New contracts for streetlighting and sanitation services will reduce costs by \$150,000.

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 increased from \$6,599,753 for the year ended June 30, 2011 to \$7,412,804 for the year ended June 30, 2012 – a healthy 12.3% increase. For 2012-13, the City has conservatively estimated income tax revenue to be \$7,100,000.

Year	City Income Tax Revenues	Percent Change
6/30/2012	\$7,412,804	12.3%
6/30/2011	6,599,753	96.0%
6/30/2010*	3,368,057	-48.0%
12/31/2009	6,482,290	-15.8%
12/31/2008	7,694,780	1.0%

* 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 2012-13, the City tax levy remains at 9.5 mills for general operations and 2.5 mills for sanitation service. We project that \$7,006,440 in total property tax revenue will be collected during fiscal year 2012-13.

It should be noted that several significant property tax appeals are pending. The impact of these appeals on City finances is being monitored closely.

State Shared Revenues

State shared sales tax revenues represent about 15% 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 non-constitutional component is determined by a complex formula and is subject to adjustment through the State's annual budget process. Both 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
6/30/2012	\$3,577,848	-7.0%
6/30/2011	3,846,859	110.0%
6/30/2010*	1,832,066	-52.3%
12/31/2009	3,841,922	-14.4%
12/31/2008	4,487,698	0.3%

* 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 the 2012-13 fiscal year, the City has projected \$3,592,422 in state shared revenues.

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 been more stable than general state sales tax state-shared revenues have been:

Year	Street Revenues from State	Percent Change
6/30/2012	\$3,176,984	-2.4%
6/30/2011	3,256,430	87.0%
6/30/2010*	1,741,233	-45.2%
12/31/2009	3,177,862	-0.7%
12/31/2008	3,199,930	-2.7%

** Six-month fiscal period*

For 2012-13, the City is projecting no material change in street revenues from the State of Michigan.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent one of the City's largest income streams, totaling \$11,709,729 during the year ended June 30, 2012. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. Water rates will be adjusted in 2012-13.

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, 2012

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 15,993,001	\$ 6,075,414	\$ 22,068,415	\$ 457,790
Receivables	2,502,230	2,080,362	4,582,592	-
Due from other governmental units	1,779,946	49,635	1,829,581	-
Internal balances	(1,361,094)	1,361,094	-	-
Inventories	39,587	149,259	188,846	-
Prepaid items	427,862	107,367	535,229	61,149
Total current assets	<u>19,381,532</u>	<u>9,823,131</u>	<u>29,204,663</u>	<u>518,939</u>
NONCURRENT ASSETS				
Restricted assets	-	672,000	672,000	-
Capital assets, net				
Nondepreciable	18,980,797	1,801,129	20,781,926	400,000
Depreciable	53,744,956	53,606,235	107,351,191	2,316,362
Due from component units	1,660,000	-	1,660,000	-
Bond issuance costs, net	105,889	85,467	191,356	158,843
Special assessments receivable	388,403	-	388,403	-
Net pension asset	996,641	-	996,641	-
Notes receivable	158,114	-	158,114	-
Total noncurrent assets	<u>76,034,800</u>	<u>56,164,831</u>	<u>132,199,631</u>	<u>2,875,205</u>
Total assets	<u>95,416,332</u>	<u>65,987,962</u>	<u>161,404,294</u>	<u>3,394,144</u>
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,696,539	381,012	2,077,551	100,815
Due to other governmental units	1,037,810	439,401	1,477,211	-
Unearned revenue	412,289	-	412,289	-
Bonds and other obligations, due within one year	591,800	1,271,100	1,862,900	455,000
Total current liabilities	<u>3,738,438</u>	<u>2,091,513</u>	<u>5,829,951</u>	<u>555,815</u>
NONCURRENT LIABILITIES				
Due to primary government	-	-	-	1,660,000
Bonds and other obligations, less amounts due within one year	8,452,172	14,115,136	22,567,308	6,909,932
Total noncurrent liabilities	<u>8,452,172</u>	<u>14,115,136</u>	<u>22,567,308</u>	<u>8,569,932</u>
Total liabilities	<u>12,190,610</u>	<u>16,206,649</u>	<u>28,397,259</u>	<u>9,125,747</u>
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	66,862,806	40,147,600	107,010,406	(1,839,834)
Restricted for:				
Streets and highways	1,974,304	-	1,974,304	-
Debt service	-	672,000	672,000	-
Law enforcement	149,174	-	149,174	-
Perpetual care				
Expendable	25,466	-	25,466	-
Non-expendable	1,372,400	-	1,372,400	-
Other purposes	4,999	-	4,999	-
Unrestricted	12,836,573	8,961,713	21,798,286	(3,891,769)
Total net assets (deficits)	<u>\$ 83,225,722</u>	<u>\$ 49,781,313</u>	<u>\$ 133,007,035</u>	<u>\$ (5,731,603)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

Functions/Programs					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Program Revenue			Primary Government			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
Public representation services	\$ 866,809	\$ 196,886	\$ -	\$ -	\$ (669,923)	\$ -	\$ (669,923)	\$ -
Administrative services	566,161	270,886	10,000	-	(285,275)	-	(285,275)	-
Financial services	2,399,147	881,229	50,000	23,400	(1,444,518)	-	(1,444,518)	-
Public safety	13,213,251	1,136,942	166,595	-	(11,909,714)	-	(11,909,714)	-
Public works	2,958,367	480,487	-	9,478	(2,468,402)	-	(2,468,402)	-
Highways, streets and bridges	6,568,448	230,241	3,133,453	1,378,999	(1,825,755)	-	(1,825,755)	-
Community and economic development	2,447,373	617,379	1,285,652	156,128	(388,214)	-	(388,214)	-
Culture and recreation	1,601,316	315,010	5,876	-	(1,280,430)	-	(1,280,430)	-
General administration	791,197	116,690	-	-	(674,507)	-	(674,507)	-
Interest on long-term debt	283,186	-	-	-	(283,186)	-	(283,186)	-
Total governmental activities	31,695,255	4,245,750	4,651,576	1,568,005	(21,229,924)	-	(21,229,924)	-
Business-type activities								
Sewer	6,202,359	6,455,634	-	-	-	253,275	253,275	-
Water	5,974,173	5,254,095	-	-	-	(720,078)	(720,078)	-
Marina and Launch Ramp	310,174	208,370	-	-	-	(101,804)	(101,804)	-
Total business-type activities	12,486,706	11,918,099	-	-	-	(568,607)	(568,607)	-
Total primary government	\$ 44,181,961	\$ 16,163,849	\$ 4,651,576	\$ 1,568,005	(21,229,924)	(568,607)	(21,798,531)	-
Component units								
Local Development Finance Authority III	\$ 493,903	\$ -	\$ -	\$ 175,000	-	-	-	(318,903)
Downtown Development Authority	130,462	-	-	-	-	-	-	(130,462)
Tax Increment Finance Authority	50,000	-	-	-	-	-	-	(50,000)
Brownfield Redevelopment Authority	1,711,849	-	-	-	-	-	-	(1,711,849)
Total component units	\$ 2,386,214	\$ -	\$ -	\$ 175,000	-	-	-	(2,211,214)
General revenues								
Property taxes					8,383,224	-	8,383,224	584,703
Income taxes					7,663,534	-	7,663,534	-
Cable franchises					342,376	-	342,376	-
Grants and contributions not restricted to specific programs					3,577,848	-	3,577,848	-
Unrestricted investment earnings					100,073	46,582	146,655	6,853
Miscellaneous					154,531	-	154,531	-
Gain on sale of capital asset					34,496	-	34,496	-
Total general revenues					20,256,082	46,582	20,302,664	591,556
Change in net assets					(973,842)	(522,025)	(1,495,867)	(1,619,658)
Net assets (deficit) at July 1, 2011					84,199,564	50,303,338	134,502,902	(4,111,945)
Net assets (deficit) at June 30, 2012					\$ 83,225,722	\$ 49,781,313	\$ 133,007,035	\$ (5,731,603)

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Major Street and Trunkline Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash and investments	\$ 5,811,348	\$ 2,185,590	\$ 3,805,840	\$ 11,802,778
Receivables				
Accounts and loans	184,033	6,053	567,920	758,006
Property taxes	103,595	-	-	103,595
Income taxes	739,865	-	-	739,865
Special assessments	-	379,120	341,283	720,403
Due from other governmental units	653,339	432,531	694,076	1,779,946
Due from other funds	782,150	-	-	782,150
Advances to component units	-	-	553,334	553,334
Prepaid items	168,468	22,792	5,633	196,893
Total assets	\$ 8,442,798	\$ 3,026,086	\$ 5,968,086	\$ 17,436,970
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 718,223	\$ 55,526	\$ 66,843	\$ 840,592
Accrued liabilities	188,462	3,757	10,341	202,560
Due to other governmental units	945,139	80,675	-	1,025,814
Due to other funds	-	-	782,150	782,150
Deferred revenue	70,929	379,120	697,747	1,147,796
Total liabilities	1,922,753	519,078	1,557,081	3,998,912
Fund balances				
Nonspendable:				
Prepaid items	168,468	22,792	5,633	196,893
Long-term loans receivable	-	-	177,493	177,493
Perpetual care	10,000	-	1,362,400	1,372,400
Restricted for:				
Streets and highways	-	2,484,216	821,218	3,305,434
Law enforcement	-	-	149,174	149,174
Perpetual care	-	-	25,466	25,466
Other purposes	-	-	4,999	4,999
Assigned for:				
Capital projects and public improvements	1,500,000	-	2,055,904	3,555,904
Fiscal year 2013 budget	575,738	-	-	575,738
Unassigned	4,265,839	-	(191,282)	4,074,557
Total fund balances	6,520,045	2,507,008	4,411,005	13,438,058
Total liabilities and fund balances	\$ 8,442,798	\$ 3,026,086	\$ 5,968,086	\$ 17,436,970

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, 2012

Total fund balance—governmental funds \$ 13,438,058

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	\$ 130,509,598	
Accumulated depreciation	<u>(59,543,443)</u>	70,966,155

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

Bond issuance costs	160,106	
Accumulated amortization	<u>(54,217)</u>	105,889

Net pension costs are recorded as expenditures in the fund statements when paid,
 but are recorded as an expense in the government-wide statements when incurred.

996,641

Other receivables in governmental activities are not reported in the
 governmental funds.

640,000

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

(63,000)

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.

720,506

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	(7,862,947)	
Compensated absences	<u>(1,092,533)</u>	(8,955,480)

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.

5,376,953

Net assets of governmental activities in the Statement of Net Assets

\$ 83,225,722

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 year ended June 30, 2012

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
REVENUES				
Taxes	\$ 15,506,668	\$ -	\$ -	\$ 15,506,668
Licenses and permits	1,223,034	-	-	1,223,034
Intergovernmental revenues				
Federal	152,300	1,020,000	1,285,652	2,457,952
State	3,592,143	2,895,328	903,956	7,391,427
Local	50,000	-	-	50,000
Charges for services	2,407,792	97,842	90,694	2,596,328
Fines and forfeitures	447,979	-	11,422	459,401
Interest and rental income	202,300	34,829	70,762	307,891
Other	540,544	168,897	537,422	1,246,863
Total revenues	24,122,760	4,216,896	2,899,908	31,239,564
EXPENDITURES				
Current				
Public representation services	867,762	-	-	867,762
Administrative services	470,489	-	-	470,489
Financial services	2,407,131	-	-	2,407,131
Public safety	12,958,910	-	4,212	12,963,122
Public works	2,835,000	-	-	2,835,000
Highways, streets and bridges	-	4,250,559	1,235,481	5,486,040
Community and economic development	934,580	-	-	934,580
Culture and recreation	1,263,386	-	2,357	1,265,743
Other governmental functions	770,910	-	-	770,910
Debt service				
Principal	70,000	-	219,597	289,597
Interest and fees	211,954	25,330	31,031	268,315
Capital outlay	244,280	-	1,935,812	2,180,092
Total expenditures	23,034,402	4,275,889	3,428,490	30,738,781
Excess of revenues over (under) expenditures	1,088,358	(58,993)	(528,582)	500,783
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	113,981	113,981
Long-term debt issued	-	2,000,000	-	2,000,000
Transfers in	3,351	-	507,556	510,907
Transfers out	(583,046)	-	(30,907)	(613,953)
Total other financing sources (uses)	(579,695)	2,000,000	590,630	2,010,935
Net change in fund balances	508,663	1,941,007	62,048	2,511,718
Fund balances at July 1, 2011	6,011,382	566,001	4,348,957	10,926,340
Fund balances at June 30, 2012	\$ 6,520,045	\$ 2,507,008	\$ 4,411,005	\$ 13,438,058

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 year ended June 30, 2012

Net change in fund balances—total governmental funds \$ 2,511,718

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	\$ (4,403,141)	
Capital outlay	<u>2,948,610</u>	(1,454,531)

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. (15,557)

Debt proceeds are other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets. (2,000,000)

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds. (35,621)

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. 288,658

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. (6,300)

Some items are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

Decrease in net pension asset	(3,359)	
Decrease in compensated absences	<u>1,167</u>	(2,192)

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. (328,023)

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><u>\$ (973,842)</u></u>
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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 year ended June 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Ramp	Total	
OPERATING REVENUES					
Charges for services	\$ 6,308,525	\$ 5,010,924	\$ 198,418	\$ 11,517,867	\$ 7,943,478
Other	147,109	243,171	9,952	400,232	89,599
Total operating revenues	6,455,634	5,254,095	208,370	11,918,099	8,033,077
OPERATING EXPENSES					
Administration	333,857	537,845	17,376	889,078	360,000
Insurance premiums and claims	-	-	-	-	4,277,725
Wastewater treatment	5,405,696	-	-	5,405,696	-
Filtration plant operations	-	1,385,191	-	1,385,191	-
Water distribution	-	1,518,042	-	1,518,042	-
Other operations	-	-	177,038	177,038	3,064,260
Depreciation and amortization	421,949	2,137,578	114,198	2,673,725	494,365
Total operating expenses	6,161,502	5,578,656	308,612	12,048,770	8,196,350
Operating income (loss)	294,132	(324,561)	(100,242)	(130,671)	(163,273)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	25,008	19,625	1,949	46,582	33,677
Gain on sale of capital assets	-	-	-	-	28,963
Interest expense	-	(372,343)	-	(372,343)	-
Total nonoperating revenue (expenses)	25,008	(352,718)	1,949	(325,761)	62,640
Income (loss) before contributions and transfers	319,140	(677,279)	(98,293)	(456,432)	(100,633)
Transfers in	-	-	-	-	103,046
Change in net assets	319,140	(677,279)	(98,293)	(456,432)	2,413
Net assets at July 1, 2011	16,990,612	29,762,046	2,123,993		6,735,634
Net assets at June 30, 2012	\$ 17,309,752	\$ 29,084,767	\$ 2,025,700		\$ 6,738,047
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(65,593)	
Change in net assets of business-type activities				\$ (522,025)	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
 Proprietary Funds
 For the year ended June 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 6,431,827	\$ 5,024,918	\$ 209,808	\$ 11,666,553	\$ 161,099
Receipts from interfund services provided	13,814	93,679	-	107,493	7,943,478
Payments to suppliers	(4,855,616)	(1,517,384)	(166,482)	(6,539,482)	(4,607,163)
Payments to employees	(420,403)	(1,278,702)	(14,225)	(1,713,330)	(1,490,276)
Payments for interfund services used	(468,796)	(733,118)	(11,540)	(1,213,454)	(858,405)
Net cash provided by operating activities	<u>700,826</u>	<u>1,589,393</u>	<u>17,561</u>	<u>2,307,780</u>	<u>1,148,733</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	-	-	103,046
Advances to component units	-	-	-	-	(1,106,666)
Net cash used for noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,003,620)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(344,591)	(771,410)	-	(1,116,001)	(589,536)
Principal paid on capital debt	-	(1,230,000)	-	(1,230,000)	-
Interest paid on capital debt	-	(410,187)	-	(410,187)	-
Proceeds from sale of capital assets	-	-	-	-	32,486
Net cash used for capital and related financing activities	<u>(344,591)</u>	<u>(2,411,597)</u>	<u>-</u>	<u>(2,756,188)</u>	<u>(557,050)</u>
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	25,008	19,625	1,949	46,582	33,677
Net increase (decrease) in cash and investments	<u>381,243</u>	<u>(802,579)</u>	<u>19,510</u>	<u>(401,826)</u>	<u>(378,260)</u>
Cash and investments July 1, 2011	3,320,219	3,585,169	243,852	7,149,240	4,568,483
Cash and investments at June 30, 2012	<u>\$ 3,701,462</u>	<u>\$ 2,782,590</u>	<u>\$ 263,362</u>	<u>\$ 6,747,414</u>	<u>\$ 4,190,223</u>
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 3,701,462	\$ 2,110,590	\$ 263,362	\$ 6,075,414	\$ 4,190,223
Restricted cash and investments	-	672,000	-	672,000	-
	<u>\$ 3,701,462</u>	<u>\$ 2,782,590</u>	<u>\$ 263,362</u>	<u>\$ 6,747,414</u>	<u>\$ 4,190,223</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 294,132	\$ (324,561)	\$ (100,242)	\$ (130,671)	\$ (163,273)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization expense	421,949	2,137,578	114,198	2,673,725	494,365
Bad debt expense	19,221	17,683	-	36,904	-
Change in assets and liabilities					
Receivables, net	(29,214)	(153,181)	1,438	(180,957)	71,500
Inventories	(9,787)	(9,585)	-	(19,372)	(9,751)
Prepaid items	(987)	(2,933)	413	(3,507)	517,353
Accounts payable	23,487	(23,550)	901	838	372,496
Accrued liabilities	(17,975)	(52,058)	853	(69,180)	(40,537)
Due to other funds	-	-	-	-	(93,420)
Net cash provided by operating activities	<u>\$ 700,826</u>	<u>\$ 1,589,393</u>	<u>\$ 17,561</u>	<u>\$ 2,307,780</u>	<u>\$ 1,148,733</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Fiduciary Funds
 June 30, 2012

	Agency Funds
ASSETS	
Cash and investments	\$ 705,640
Accounts receivable	1,867
Total assets	\$ 707,507
 LIABILITIES	
Accounts payable	\$ 228,052
Due to other governmental units	390,092
Deposits held for others	89,363
Total liabilities	\$ 707,507

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2012

	ASSETS				
	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
CURRENT ASSETS					
Cash and investments	\$ 35,595	\$ 245,957	\$ 19,638	\$ 156,600	\$ 457,790
Prepaid items	61,149	-	-	-	61,149
Total current assets	96,744	245,957	19,638	156,600	518,939
NONCURRENT ASSETS					
Capital assets, net					
Nondepreciable	400,000	-	-	-	400,000
Depreciable	2,316,362	-	-	-	2,316,362
Net capital assets	2,716,362	-	-	-	2,716,362
Bond issuance costs, net	114,766	44,077	-	-	158,843
Total noncurrent assets	2,831,128	44,077	-	-	2,875,205
Total assets	2,927,872	290,034	19,638	156,600	3,394,144
LIABILITIES AND NET ASSETS (DEFICITS)					
CURRENT LIABILITIES					
Accounts payable	-	59,185	-	-	59,185
Accrued liabilities	36,700	4,930	-	-	41,630
Bonds and other obligations, due within one year	180,000	275,000	-	-	455,000
Total current liabilities	216,700	339,115	-	-	555,815
NONCURRENT LIABILITIES					
Advances from primary government	-	-	-	1,660,000	1,660,000
Bonds and other obligations, less amounts due within one year	4,376,196	2,533,736	-	-	6,909,932
Total noncurrent liabilities	4,376,196	2,533,736	-	1,660,000	8,569,932
Total liabilities	4,592,896	2,872,851	-	1,660,000	9,125,747
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	(1,839,834)	-	-	-	(1,839,834)
Unrestricted	174,810	(2,582,817)	19,638	(1,503,400)	(3,891,769)
Total net assets (deficits)	\$ (1,665,024)	\$ (2,582,817)	\$ 19,638	\$ (1,503,400)	\$ (5,731,603)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2012

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>				
		<u>Capital grants and contributions</u>	<u>Local Development Finance Authority III</u>	<u>Downtown Development Authority</u>	<u>Tax Increment Finance Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Local Development Finance Authority III							
Economic development	\$ 266,731	\$ -	\$ (266,731)	\$ -	\$ -	\$ -	\$ (266,731)
Interest on long-term debt	227,172	175,000	(52,172)	-	-	-	(52,172)
Total Local Development Finance Authority III	493,903	175,000	(318,903)	-	-	-	(318,903)
Downtown Development Authority							
Economic development	6,562	-	-	(6,562)	-	-	(6,562)
Distributions to other taxing authorities	59,185	-	-	(59,185)	-	-	(59,185)
Interest on long-term debt	64,715	-	-	(64,715)	-	-	(64,715)
Total Downtown Development Authority	130,462	-	-	(130,462)	-	-	(130,462)
Tax Increment Finance Authority							
Economic development	50,000	-	-	-	(50,000)	-	(50,000)
Brownfield Redevelopment Authority							
Economic development	1,711,849	-	-	-	-	(1,711,849)	(1,711,849)
Total discretely presented component units	<u>\$ 2,386,214</u>	<u>\$ 175,000</u>	(318,903)	(130,462)	(50,000)	(1,711,849)	(2,211,214)
General revenues							
Property taxes			83,420	305,797	53,057	142,429	584,703
Unrestricted investment income			3,568	2,478	136	671	6,853
Total general revenues			<u>86,988</u>	<u>308,275</u>	<u>53,193</u>	<u>143,100</u>	<u>591,556</u>
Change in net assets			(231,915)	177,813	3,193	(1,568,749)	(1,619,658)
Net assets (deficits) at July 1, 2011			<u>(1,433,109)</u>	<u>(2,760,630)</u>	<u>16,445</u>	<u>65,349</u>	<u>(4,111,945)</u>
Net assets (deficits) at June 30, 2012			<u>\$ (1,665,024)</u>	<u>\$ (2,582,817)</u>	<u>\$ 19,638</u>	<u>\$ (1,503,400)</u>	<u>\$ (5,731,603)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

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, 2012

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, 2012, 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, 2011, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,646,184
Total liabilities	<u>(212,771)</u>
Total net assets	<u><u>\$ 5,433,413</u></u>
Total operating income	\$ 1,750,345
Total operating expenses	(1,962,016)
Total nonoperating revenues	39,989
Capital contributions	<u>231,934</u>
Change in net assets	<u><u>\$ 60,252</u></u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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, 2012

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.

In the government-wide financial statements and proprietary fund types in the fund financial statements, 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.

In the fund financial statements, when expenditures are incurred in governmental fund types for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the City's policy to consider that restricted amounts have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it is the City's policy that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

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, 2012

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.

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 2011 state taxable value for real/personal property of the City totaled approximately \$667,015,000 of which approximately \$8,200,000 was captured by the component units. The ad valorem taxes levied consisted of 9.5, 2.5, and .0749 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, 2012

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

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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

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 fund balance is presented in five possible categories:

- a. Nonspendable—resources which cannot be spent because they are either 1) not in spendable form or; 2) legally or contractually required to be maintained intact.
- b. Restricted—resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. Committed—resources which are subject to limitations the City imposes upon itself by action of the City Commission, and that remain binding unless the limitations are removed in the same manner.
- d. Assigned—resources neither restricted nor committed for which a City has a stated intended use as established by the City Commission or the City Manager to which the City Commission has delegated the authority to assign amounts for specific purposes.
- e. Unassigned—resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

The City has a minimum fund balance policy requiring unassigned fund balance be at least 13% of prior year actual revenues.

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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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 2011 financial statements have been reclassified to conform to the 2012 presentation.

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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended June 30, 2012, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Public safety		
Police department	\$ 8,630,989	\$ 8,680,770
Fire department	3,564,399	3,674,677

These over-expenditures were funded with available fund balance.

Fund Deficits

As of June 30, 2012, the HOME Fund had an unassigned fund deficit of \$182,501, and the State Grants Fund had an unassigned fund deficit of \$8,781. The deficits will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2012, the City had the following investments:

	Fair value	Weighted average maturity (Months)	Moody's	Percent
Investment Type				
Money market funds	\$ 2,491,269	1	AAA	16.5%
US Agency obligations	4,465,116	227	AA+	22.3%
Certificate of Deposit Account				
Registry Service (CDARS)	8,002,533	2	not rated	61.2%
Total fair value	\$ 14,958,918			100.0%
Portfolio weighted average maturity		52		

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.

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.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE C—DEPOSITS AND INVESTMENTS—Continued

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 National Mortgage Association which are 22.37 percent of the City's investments.

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, 2012, \$8,168,427 of the City's bank balance of \$8,676,713 was 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, 2012, 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 year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental activities:				
Capital assets, no being depreciated:				
Land	\$ 12,396,713	\$ -	\$ 15,557	\$ 12,381,156
Construction in progress	7,893,371	2,730,030	4,023,760	6,599,641
Total capital assets, not being depreciated	20,290,084	2,730,030	4,039,317	18,980,797
Capital assets, being depreciated:				
Land improvements	4,215,004	-	-	4,215,004
Leasehold improvements	473,114	43,491	-	516,605
Buildings and improvements	21,332,236	13,458	-	21,345,694
Furniture, vehicle and equipment	12,066,485	751,167	394,278	12,423,374
Infrastructure	72,624,081	4,023,760	-	76,647,841
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	116,287,821	4,831,876	394,278	120,725,419

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental activities— Continued				
Less accumulated depreciation:				
Land improvements	\$ 866,673	\$ 142,250	\$ -	\$ 1,008,923
Leasehold improvements	195,741	53,535	-	249,276
Buildings and improvements	14,017,054	470,170	-	14,487,224
Furniture, vehicle and equipment	9,809,836	582,346	390,755	10,001,427
Infrastructure	35,255,799	3,362,729	-	38,618,528
Shared improvements	2,336,240	278,845	-	2,615,085
Total accumulated depreciation	<u>62,481,343</u>	<u>4,889,875</u>	<u>390,755</u>	<u>66,980,463</u>
Total capital assets, being depreciated, net	<u>53,806,478</u>	<u>(57,999)</u>	<u>3,523</u>	<u>53,744,956</u>
Capital assets, net	<u>\$ 74,096,562</u>	<u>\$ 2,672,031</u>	<u>\$ 4,042,840</u>	<u>\$ 72,725,753</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	1,509,732	1,103,591	954,444	1,658,879
Total capital assets, not being depreciated	<u>1,651,982</u>	<u>1,103,591</u>	<u>954,444</u>	<u>1,801,129</u>
Capital assets, being depreciated:				
Land improvements	1,888,965	-	-	1,888,965
Buildings and improvements	86,407,299	954,444	-	87,361,743
Machinery and equipment	2,827,878	12,410	-	2,840,288
Total capital assets, being depreciated	<u>91,124,142</u>	<u>966,854</u>	<u>-</u>	<u>92,090,996</u>
Less accumulated depreciation:				
Land improvements	1,697,265	21,225	-	1,718,490
Buildings and improvements	32,686,384	2,309,864	-	34,996,248
Machinery and equipment	1,450,539	319,484	-	1,770,023
Total accumulated depreciation	<u>35,834,188</u>	<u>2,650,573</u>	<u>-</u>	<u>38,484,761</u>
Total capital assets, being depreciated, net	<u>55,289,954</u>	<u>(1,683,719)</u>	<u>-</u>	<u>53,606,235</u>
Capital assets, net	<u>\$ 56,941,936</u>	<u>\$ (580,128)</u>	<u>\$ 954,444</u>	<u>\$ 55,407,364</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 52,454
Public safety	146,956
Public works	75,449
Highways, streets and bridges	3,722,474
Community and economic development	75,717
Culture and recreation	302,174
General administration	20,286
Internal Service Fund depreciation	494,365
	<u>\$ 4,889,875</u>

Business-type activities:

Sewer	\$ 421,949
Water	2,114,426
Marina and Launch Ramp	114,198
	<u>\$ 2,650,573</u>

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
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:				
Building and improvements	1,309,248	172,648	-	1,481,896
Total capital assets, being depreciated, net	2,489,010	(172,648)	-	2,316,362
Capital assets, net	\$ 2,889,010	\$ (172,648)	\$ -	\$ 2,716,362

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental activities:				
Bond issuance costs	\$ 160,106	\$ -	\$ -	\$ 160,106
Less accumulated amortization	46,586	7,631	-	54,217
Bond issuance costs, net	\$ 113,520	\$ (7,631)	\$ -	\$ 105,889
Business-type activities:				
Bond issuance costs	\$ 134,250	\$ -	\$ -	\$ 134,250
Less accumulated amortization	25,631	23,152	-	48,783
Bond issuance costs, net	\$ 108,619	\$ (23,152)	\$ -	\$ 85,467

Amortization

Amortization expense was charge to functions as follows:

Governmental Activities:		
Interest on long-term debt		\$ 7,631
Business-type Activities:		
Water		\$ 23,152

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Community Development Block Grant Fund	\$ 506,163
General Fund	HOME Rehabilitation Fund	195,829
General Fund	Neighborhood Stabilization Fund	80,158
		\$ 782,150

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Component unit advance:

The Cemetery Perpetual Care Fund, Equipment Fund, and General Insurance Fund advanced the BRA \$1,660,000 to enable the BRA to retire a redevelopment commitment early. The advance will be repaid with future tax captures.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 3,351	Nonmajor Governmental Funds	
		State Grant Fund	\$ 1,125
		Cemetery Fund	2,226
	3,351		3,351
Nonmajor Governmental Funds			
Local Street Fund	480,000	General Fund	480,000
Nonmajor Governmental Funds		Nonmajor Governmental Funds	
HOME Rehabilitation Fund	27,556	Community Development	
		Block Grant Fund	27,556
Internal Service Funds			
Engineering Fund	75,000	General Fund	103,046
General Insurance Fund	28,046		
	103,046		103,046
	\$ 613,953		\$ 613,953

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, 2012

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	\$ 17,240	\$ 410,049
Special assessments	720,507	-
Total deferred revenue for governmental funds	\$ 737,747	\$ 410,049

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 year ended June 30, 2012.

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due within one year
Governmental activities:					
General obligation debt	\$ 5,221,755	\$ 2,000,000	\$ 69,061	\$ 7,152,694	\$ 245,000
Intergovernmental					
contractual obligations	244,850	-	94,597	150,253	20,000
Special assessment obligations	685,000	-	125,000	560,000	130,000
Compensated absences	1,188,476	1,397,420	1,404,871	1,181,025	196,800
Governmental activity long-term liabilities	\$ 7,340,081	\$ 3,397,420	\$ 1,693,529	\$ 9,043,972	\$ 591,800
Business-type activities:					
Revenue obligations	\$ 16,522,208	\$ -	\$ 1,262,444	\$ 15,259,764	\$ 1,250,000
Compensated absences	157,153	108,409	139,090	126,472	21,100
Business-type activity long-term liabilities	\$ 16,679,361	\$ 108,409	\$ 1,401,534	\$ 15,386,236	\$ 1,271,100
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	6,478,681	4,376,196	4,489,945	6,364,932	455,000
Component unit long- term liabilities	\$ 7,478,681	\$ 4,376,196	\$ 4,489,945	\$ 7,364,932	\$ 455,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

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%	\$ 5,165,000
Less bond discount	(12,306)

\$2,000,000 Capital Improvement Bonds of 2011 payable in annual installments of \$175,000 to \$230,000 through September 2021; interest at 2.98%	2,000,000
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Intergovernmental contractual obligations:

\$500,000 State of Michigan Brownfield Redevelopment loan of 2008 payable in annual installments of \$23,216 through March 2019; including interest at 2%	150,253
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Special assessment obligations:

\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$130,000 to \$150,000 through June 2016; interest at 3.8% to 4.05%	560,000
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Compensated absences

7,862,947
1,181,025

\$ 9,043,972

Business-type activities:

Revenue obligations:

\$5,995,000 Water supply system refunding bonds of 2010 payable in annual installments of \$610,000 to \$770,000 through May 2019; interest at 3.00% to 4.25%	\$ 4,815,000
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Add bond premium	119,764
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\$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$640,000 to \$840,000 through October 2025; interest at 2.13%	10,325,000
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Compensated absences

15,259,764
126,472

\$ 15,386,236

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

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:

\$2,045,000 Downtown Development Authority tax increment refunding bonds of 2011 payable in annual installments of \$275,000 to \$330,000 through June 2018; interest at 2% to 4%	1,780,000
Add bond premium	28,736
\$4,725,000 Local Development Finance Authority tax increment bonds of 2002; final payment of \$180,000 due November 2012; interest at 4%	180,000
\$4,100,000 Local Development Finance Authority tax increment refunding bonds of 2012 payable in annual installments of \$260,000 to \$396,000 through June 2025; interest at 2% to 4%	4,100,000
Add bond premium	276,196
	\$ 7,364,932

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 March 20, 2012, the City issued \$4,100,000 of Local Development Finance Authority Refunding Bonds of 2012 to refund the outstanding balance of the Local Development Finance Authority Refunding Bonds 2002. The City refunded the Local Development Finance Authority Refunding Bonds 2002 to reduce its total debt service payments over the next 13 years by \$479,145 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$405,546.

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, 2012 was approximately \$5,032,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

The Local Development Finance Authority (LDFA) tax increment bonds 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, 2012.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE H—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2012 follow:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 395,211	\$ 290,423	\$ 1,250,000	\$ 384,694	\$ 455,000	\$ 205,228
2014	405,615	276,989	1,295,000	352,635	540,000	177,588
2015	421,027	263,073	1,330,000	320,857	605,000	164,088
2016	431,448	248,465	1,370,000	283,360	635,000	148,276
2017	286,877	233,425	1,405,000	246,434	655,000	129,251
2018-2022	2,175,075	985,756	5,225,000	642,822	3,090,000	341,425
2023-2027	1,665,000	604,628	3,265,000	140,514	1,080,000	66,300
2028-2032	1,745,000	255,573	-	-	-	-
2033	350,000	7,350	-	-	-	-
	\$ 7,875,253	\$ 3,165,682	\$ 15,140,000	\$ 2,371,316	\$ 7,060,000	\$ 1,232,156

Annual debt service requirements to maturity by type of debt as of June 30, 2012 follow:

Year ending June 30,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2013	\$ 510,338	\$ 660,228	\$ 1,634,694	\$ -
2014	507,248	717,588	1,647,635	-
2015	504,010	769,088	1,650,857	-
2016	500,622	783,276	1,653,360	-
2017	497,086	784,251	1,651,434	-
2018-2022	3,114,399	2,431,425	5,867,822	1,000,000
2023-2027	2,269,625	1,146,300	3,405,517	-
2028-2032	2,000,572	-	-	-
2033	357,350	-	-	-
	\$ 10,261,250	\$ 7,292,156	\$ 17,511,319	\$ 1,000,000

Year ending June 30,	Special	
	Intergovernmental Governmental activities	Assessment Governmental activities
2013	\$ 23,216	\$ 152,080
2014	23,216	152,140
2015	23,216	156,875
2016	23,216	156,075
2017	23,216	-
2018-2022	46,432	-
2023-2027	-	-
2028-2032	-	-
2033	-	-
	\$ 162,512	\$ 617,170

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE I—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 2012 and 2011 were as follows:

<u>Year ended</u>	<u>Balance at beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>Balance at end of year</u>
June 30, 2012	\$ 83,745	\$ 113,079	\$ 72,103	\$ 124,721
June 30, 2011	178,552	61,897	156,704	83,745

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, 2012, the claims liability including incurred but not reported claims was \$81,702. 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 2012 and 2011 were as follows:

<u>Year ended</u>	<u>Balance at beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>Balance at end of year</u>
June 30, 2012	\$ 15,462	\$ 1,199,682	\$1,133,442	\$ 81,702
June 30, 2011	7,040	970,245	961,823	15,462

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE I—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.

Commitments

The City has various contract agreements for street projects as of June 30, 2012 of approximately \$1,111,000. Approximately \$481,000 of these costs are being financed by grants with the remainder coming from the Major Street and Trunkline Fund. The City also has contract agreements for water and sewer improvements for approximately \$836,000 with \$193,000 of the costs being paid by the Sewer Fund and \$643,000 of the costs being paid by the Water Fund.

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2017 with the option by the tenant to renew the term of the lease for four successive periods of five years each. The City received rental income (including pro-rata utility usage) of \$43,526 for the year ended June 30, 2012. The future minimum rental income for this lease is as follows:

Year ending June 30,	Amount
2013	\$ 35,192
2014	34,854
2015	34,202
2016	33,864
2017	33,841
	\$ 171,953

NOTE J—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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE J—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

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 5.11 to 16.09 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.

Annual Pension Cost. For the year ended June 30, 2012, the City’s annual pension cost of approximately \$1,159,000 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>
June 30, 2010*	\$ 605,000	100 %	\$ -
June 30, 2011	1,228,000	181	-
June 30, 2012	1,159,000	100	-

* Six month fiscal period

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) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 1 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, 2011 was 17 years.

The net pension asset is calculated as follows:

Annual required contribution	\$ 1,158,637
Interest on net pension asset	(80,000)
Adjustment to annual required contribution	<u>83,359</u>
Net pension cost	1,161,996
Contributions made	<u>1,158,637</u>
Decrease in net pension asset	(3,359)
Net pension asset at beginning of year	<u>1,000,000</u>
Net pension asset at end of year	<u><u>\$ 996,641</u></u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE J—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Funding Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was 97 percent funded. The actuarial accrued liability for benefits was approximately \$92,614,000, and the actuarial value of assets was approximately \$89,501,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$3,113,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,651,000, and the ratio of the UAAL to the covered payroll was 29 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.

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS. 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 year ended June 30, 2012, City and employee contributions were approximately \$157,000 and \$88,000, 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. Payments from the deferred compensation plan are not available to participants until termination, retirement, death, or unforeseeable emergency. Active participants are allowed to borrow from their accumulated assets for limited purposes such as family education costs, medical costs, or down payment for a new home. The City must approve program loans.

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 K—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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE K—OTHER POST-EMPLOYMENT BENEFITS—Continued

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 3.35 to 6.84 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.

Annual OPEB Cost. For the year ended June 30, 2012, the City's OPEB cost (expense) of approximately \$833,000 was equal to the City's ARC and actual contribution.

Trend Information

<u>Period Ended</u>	<u>Approximate Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net ARC Obligaion</u>
June 30, 2010*	\$ 530,000	100 %	\$ -
June 30, 2011	1,079,000	100	-
June 30, 2012	833,000	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 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, 2011 is 26 years.

Funded Status and Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was 76 percent funded. The actuarial accrued liability for benefits was approximately \$20,168,000, and the actuarial value of assets was approximately \$15,331,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$4,837,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$12,365,000, and the ratio of the UAAL to the covered payroll was 39 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.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	<u>2012</u>			Variance with final budget- positive (negative)	<u>2011</u>
	Budgeted amounts		Actual		Actual
	<u>Original</u>	<u>Final</u>			
REVENUES					
Taxes					
City income tax	\$ 6,500,000	\$ 7,000,000	\$ 7,412,804	\$ 412,804	\$ 6,599,753
Property taxes	7,968,182	7,968,182	7,913,724	(54,458)	8,357,640
Industrial facilities taxes	93,463	93,463	84,332	(9,131)	93,618
Payments in lieu of taxes	91,000	95,000	95,805	805	95,402
Delinquent chargeback collected	5,000	1,000	3	(997)	17
Total taxes	14,657,645	15,157,645	15,506,668	349,023	15,146,430
Licenses and permits					
Business licenses	28,000	28,000	30,642	2,642	31,110
Liquor licenses	61,000	57,000	56,039	(961)	61,955
Cable TV fees	340,000	340,000	342,376	2,376	362,103
Rental property registration	120,000	130,000	162,990	32,990	115,598
Burial permits	110,000	110,000	87,768	(22,232)	93,483
Building permits	200,000	250,000	264,201	14,201	255,906
Electrical permits	75,000	80,000	84,907	4,907	78,852
Plumbing permits	30,000	30,000	26,884	(3,116)	29,961
Mechanical permits	60,000	60,000	55,169	(4,831)	61,611
Vacant building fees	75,000	100,000	112,058	12,058	89,060
Total licenses and permits	1,099,000	1,185,000	1,223,034	38,034	1,179,639
Intergovernmental revenues					
Federal grants	169,889	159,405	152,300	(7,105)	192,842
State					
Grants	20,000	20,000	14,295	(5,705)	42,458
State shared revenue	3,050,000	3,540,888	3,577,848	36,960	3,846,859
Total intergovernmental revenues - State	3,070,000	3,560,888	3,592,143	31,255	3,889,317
Local	50,000	50,000	50,000	-	75,000

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	2012			Variance with final budget- positive (negative)	2011
	Budgeted amounts		Actual		Actual
	Original	Final			
Charges for services					
Tax administration fees	\$ 289,500	\$ 289,500	\$ 289,361	\$ (139)	\$ 297,326
Utility administration fees	225,000	225,000	225,000	-	225,000
Reimbursement for elections	15,500	13,000	13,640	640	12,672
Brownfield authority admin fee	-	13,828	13,828	-	-
Indirect cost reimbursements	1,144,018	1,144,018	1,144,020	2	1,144,020
Site plan review fee	3,000	3,000	3,400	400	2,800
Sale of cemetery lots	25,500	25,500	24,671	(829)	32,290
Police miscellaneous	59,000	59,000	57,893	(1,107)	84,553
Police impound fees	40,000	42,000	40,920	(1,080)	39,100
Landlord's alert fee	40	40	40	-	40
Fire protection-state property	80,000	108,094	137,127	29,033	120,210
Zoning fees	8,000	10,500	12,055	1,555	6,158
Clerk fees	3,500	1,500	1,365	(135)	2,039
Clerk fees - passport fees	5,000	3,500	3,790	290	4,115
Tax abatement application fees	2,000	4,000	3,439	(561)	810
Treasurer fees	65,000	65,000	61,682	(3,318)	60,358
False alarm fees	13,000	13,000	10,680	(2,320)	12,960
Miscellaneous cemetery income	18,000	63,000	61,645	(1,355)	20,398
Senior transit program fees	9,000	11,000	11,123	123	10,401
Fire miscellaneous	2,000	2,000	703	(1,297)	4,985
Sanitation stickers	80,000	80,000	87,303	7,303	79,762
Lot cleanup fees	50,000	35,000	43,028	8,028	29,493
Reimbursements - lot mowing and demolitions	50,000	50,000	58,740	8,740	49,760
Special events reimbursements	100,000	100,000	95,788	(4,212)	104,937
Recreation program fees	-	6,000	6,551	551	20,831
Total charges for services	2,287,058	2,367,480	2,407,792	40,312	2,365,018

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	2012			Variance with final budget- positive (negative)	2011
	Budgeted amounts		Actual		Actual
	Original	Final			
Fines and forfeitures					
Income tax - penalty and interest	\$ 180,000	\$ 180,000	\$ 191,679	\$ 11,679	\$ 156,339
Late fees on current taxes	40,000	40,000	24,051	(15,949)	30,875
Interest on late invoices	2,000	3,500	2,328	(1,172)	2,011
Parking fines	125,000	110,000	105,995	(4,005)	100,885
Court fines	170,000	140,000	123,926	(16,074)	142,764
Total fines and forfeitures	517,000	473,500	447,979	(25,521)	432,874
Interest and rental income					
Investment earnings	50,000	75,000	(25,284)	(100,284)	85,120
Flea market	29,000	35,000	28,664	(6,336)	27,233
Farmers' market	35,000	40,000	47,805	7,805	43,471
City right of way rental	8,561	8,561	6,800	(1,761)	6,800
Fire station lease - Central Dispatch	42,000	45,000	43,526	(1,474)	47,895
Great Lakes Naval Memorial lease	5,000	10,000	15,000	5,000	2,500
McGraft park rentals	45,000	47,000	48,213	1,213	52,475
Other park rentals	45,200	52,200	37,576	(14,624)	49,525
Total interest and rental income	259,761	312,761	202,300	(110,461)	315,019
Other					
Sale of land and assets	1,000	1,000	-	(1,000)	-
Police sale and auction proceeds	-	4,010	10,598	6,588	-
CDBG program reimbursements	382,870	386,470	424,549	38,079	324,393
Fisherman's Landing reimbursement	14,500	16,775	16,775	-	16,106
Contributions	11,000	11,000	3,876	(7,124)	12,455
Contribution - Veteran's Park maintenance	19,500	18,502	18,502	-	19,402
Community Foundation for Muskegon County	1,500	1,500	10,000	8,500	12,005
Miscellaneous reimbursements	1,000	1,000	-	(1,000)	-
Miscellaneous and sundry	70,000	62,689	56,244	(6,445)	46,829
Total other	501,370	502,946	540,544	37,598	431,190
Total revenues	22,611,723	23,769,625	24,122,760	353,135	24,027,329

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	2012			Variance with final budget- positive (negative)	2011
	Budgeted amounts		Actual		Actual
	Original	Final			
EXPENDITURES					
Current					
Public representation services					
City commission	\$ 84,952	\$ 89,952	\$ 82,906	\$ 7,046	\$ 84,146
City promotions and public relations	11,350	11,350	7,214	4,136	4,191
City manager	270,116	270,316	273,309	(2,993)	264,410
Contributions to outside agencies	161,824	160,824	149,468	11,356	167,296
City attorney	322,508	322,508	354,865	(32,357)	331,875
Total public representation services	850,750	854,950	867,762	(12,812)	851,918
Administrative services					
City clerk	290,181	290,981	288,959	2,022	286,050
Civil service	90,000	102,600	98,543	4,057	126,050
Affirmative action	84,812	84,812	82,987	1,825	80,231
Total administrative services	464,993	478,393	470,489	7,904	492,331
Financial services					
Finance administration	417,677	429,867	421,130	8,737	412,551
Assessing	351,675	401,675	425,160	(23,485)	420,148
Arena administration	235,000	236,599	240,091	(3,492)	242,923
Income tax administration	424,488	424,488	432,397	(7,909)	407,907
Information systems	391,716	391,346	371,201	20,145	376,995
City treasurer	463,128	504,707	517,152	(12,445)	492,185
Total financial services	2,283,684	2,388,682	2,407,131	(18,449)	2,352,709
Public safety					
Police department	8,777,989	8,630,989	8,680,770	(49,781)	8,711,831
Fire department	3,522,260	3,564,399	3,674,677	(110,278)	3,711,381
Fire safety inspections	594,720	576,680	603,463	(26,783)	656,408
Total public safety	12,894,969	12,772,068	12,958,910	(186,842)	13,079,620

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	2012			Variance with final budget- positive (negative)	2011
	Budgeted amounts		Actual		Actual
	Original	Final			
Public works					
Street lighting	\$ 760,000	\$ 705,000	\$ 560,199	\$ 144,801	\$ 784,399
Community event support	23,600	23,600	20,212	3,388	20,205
Senior citizen transit	69,078	77,100	76,309	791	68,341
General sanitation	1,680,000	1,580,050	1,561,378	18,672	1,609,780
Storm water management	17,786	18,086	13,270	4,816	17,029
City hall maintenance	276,892	279,602	235,086	44,516	243,582
Cemeteries maintenance	360,522	369,022	368,546	476	336,006
Total public works	3,187,878	3,052,460	2,835,000	217,460	3,079,342
Community and economic development					
Planning, zoning and economic development	299,261	299,661	292,915	6,746	333,610
Environmental services	532,266	547,966	541,665	6,301	411,784
Edison Landing subsidy	100,000	100,000	100,000	-	100,000
Total community and economic development	931,527	947,627	934,580	13,047	845,394
Culture and recreation					
Parks maintenance	1,138,857	1,100,207	1,050,464	49,743	979,028
McGraft park maintenance	43,651	44,951	39,876	5,075	47,132
General and inner city recreation programs	96,000	96,600	109,065	(12,465)	90,962
Graffiti removal	4,861	9,461	5,090	4,371	3,247
Parking operations	3,000	4,000	4,484	(484)	7,204
Farmers' market and flea market	60,090	58,590	54,407	4,183	51,209
Total culture and recreation	1,346,459	1,313,809	1,263,386	50,423	1,178,782
Other governmental functions					
Insurance premiums	275,000	224,982	257,320	(32,338)	259,907
Other	250,000	550,000	513,590	36,410	515,221
Contribution to MERS pension plan	-	-	-	-	1,000,000
Total other governmental functions	525,000	774,982	770,910	4,072	1,775,128

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund
 For the year ended June 30, 2012
 (with comparative actual amounts for the year ended June 30, 2011)

	<u>2012</u>			Variance with final budget- positive (negative)	<u>2011</u>
	Budgeted amounts		Actual		Actual
	Original	Final			
Debt service					
Principal	\$ 70,000	\$ 70,000	\$ 70,000	\$ -	\$ 1,024,605
Interest and fees	211,145	211,954	211,954	-	228,190
Total debt service	281,145	281,954	281,954	-	1,252,795
Capital outlay	273,000	266,763	244,280	22,483	-
Total expenditures	23,039,405	23,131,688	23,034,402	97,286	24,908,019
Excess of revenues over (under) expenditures	(427,682)	637,937	1,088,358	450,421	(880,690)
OTHER FINANCING SOURCES (USES)					
Transfers in	50,000	10,000	3,351	(6,649)	2,357
Transfers out	(508,046)	(583,046)	(583,046)	-	(648,739)
Total other financing sources (uses)	(458,046)	(573,046)	(579,695)	(6,649)	(646,382)
Net change in fund balance	\$ (885,728)	\$ 64,891	508,663	\$ 443,772	(1,527,072)
Fund balance at beginning of year			6,011,382		7,538,454
Fund balance at end of year			\$ 6,520,045		\$ 6,011,382

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 year ended June 30, 2012

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues				
Federal	\$ 1,756,000	\$ 1,561,000	\$ 1,020,000	\$ (541,000)
State	2,856,364	3,020,444	2,895,328	(125,116)
Charges for services	-	-	97,842	97,842
Investment earnings	25,000	25,000	34,829	9,829
Other	175,000	150,000	168,897	18,897
Total revenues	<u>4,812,364</u>	<u>4,756,444</u>	<u>4,216,896</u>	<u>(539,548)</u>
EXPENDITURES				
Current				
Highways, streets and bridges	6,036,482	4,878,600	4,250,559	628,041
Excess of revenues over (under) expenditures	(1,224,118)	(122,156)	(33,663)	88,493
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	2,040,000	2,020,000	2,000,000	(20,000)
Transfers out	(40,000)	(25,000)	-	25,000
Total other financing sources (uses)	<u>2,000,000</u>	<u>1,995,000</u>	<u>2,000,000</u>	<u>5,000</u>
Net change in fund balance	<u>\$ 775,882</u>	<u>\$ 1,872,844</u>	1,966,337	<u>\$ 93,493</u>
Fund balance at July 1, 2011			<u>566,001</u>	
Fund balance at June 30, 2012			<u>\$ 2,532,338</u>	

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 year ended June 30, 2012

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

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/09	\$ 86,682	\$ 87,395	\$ 713	99 %	\$ 12,614	6 %
12/31/10	88,810	88,391	(419)	100	11,533	(4)
12/31/11	89,501	92,614	3,113	97	10,651	29

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

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/07	\$ 13,831	\$ 29,722	\$ 15,891	47 %	\$ 13,290	120 %
12/31/09	13,260	24,024	10,764	55	13,293	81
12/31/11	15,331	20,168	4,837	76	12,365	39

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.

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 assets 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.

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.

**DESCRIPTION OF
OTHER GOVERNMENTAL FUNDS—CONTINUED**

Capital Projects Funds—Continued

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

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, 2012

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
ASSETS				
Cash and investments	\$ 3,805,840	\$ 900,110	\$ 2,076,276	\$ 829,454
Receivables				
Accounts and loans (net of allowance for uncollectibles)	567,920	852	561,990	5,078
Special assessments	341,283	261,325	79,958	-
Due from other governmental units	694,076	105,480	588,596	-
Advances to component units	553,334	-	-	553,334
Prepaid items	5,633	5,633	-	-
Total assets	\$ 5,968,086	\$ 1,273,400	\$ 3,306,820	\$ 1,387,866
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 66,843	\$ 25,362	\$ 41,481	\$ -
Accrued liabilities	10,341	5,689	4,652	-
Due to other funds	782,150	-	782,150	-
Deferred revenue	697,747	261,325	436,422	-
Total liabilities	1,557,081	292,376	1,264,705	-
Fund balances				
Nonspendable				
Prepaid items	5,633	5,633	-	-
Long-term loans receivable	177,493	-	177,493	-
Perpetual care	1,362,400	-	-	1,362,400
Restricted for:				
Streets and highways	821,218	821,218	-	-
Law enforcement	149,174	149,174	-	-
Perpetual care	25,466	-	-	25,466
Other purposes	4,999	4,999	-	-
Assigned for capital projects	2,055,904	-	2,055,904	-
Unassigned	(191,282)	-	(191,282)	-
Total fund balances	4,411,005	981,024	2,042,115	1,387,866
Total liabilities and fund balances	\$ 5,968,086	\$ 1,273,400	\$ 3,306,820	\$ 1,387,866

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended June 30, 2012

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 1,285,652	\$ -	\$ 1,285,652	\$ -
State	903,956	782,326	121,630	-
Charges for services	90,694	1,279	63,300	26,115
Fines and forfeitures	11,422	11,422	-	-
Investment earnings	70,762	28,264	33,868	8,630
Other	537,422	110,496	426,926	-
Total revenues	2,899,908	933,787	1,931,376	34,745
EXPENDITURES				
Current				
Public safety	4,212	4,212	-	-
Highways, streets and bridges	1,235,481	1,235,481	-	-
Culture and recreation	2,357	2,357	-	-
Debt service				
Principal	219,597	-	219,597	-
Interest and fees	31,031	-	31,031	-
Capital outlay	1,935,812	-	1,935,812	-
Total expenditures	3,428,490	1,242,050	2,186,440	-
Excess of revenues over (under) expenditures	(528,582)	(308,263)	(255,064)	34,745
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	113,981	-	113,981	-
Transfers in	507,556	480,000	27,556	-
Transfers out	(30,907)	-	(28,681)	(2,226)
Total other financing sources (uses)	590,630	480,000	112,856	(2,226)
Net change in fund balances	62,048	171,737	(142,208)	32,519
Fund balances at July 1, 2011	4,348,957	809,287	2,184,323	1,355,347
Fund balances at June 30, 2012	\$ 4,411,005	\$ 981,024	\$ 2,042,115	\$ 1,387,866

City of Muskegon
COMBINING BALANCE SHEET
 Other Special Revenue Funds
 June 30, 2012

	<u>Total other special revenue funds</u>	<u>Local Street</u>	<u>Criminal Forfeitures</u>	<u>Tree Replacement</u>
ASSETS				
Cash and investments	\$ 900,110	\$ 745,937	\$ 149,174	\$ 4,999
Receivables				
Accounts (net of allowance for uncollectibles)	852	852	-	-
Special assessments	261,325	261,325	-	-
Due from other governmental units	105,480	105,480	-	-
Prepaid items	5,633	5,633	-	-
	<u>\$ 1,273,400</u>	<u>\$ 1,119,227</u>	<u>\$ 149,174</u>	<u>\$ 4,999</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 25,362	\$ 25,362	\$ -	\$ -
Accrued liabilities	5,689	5,689	-	-
Deferred revenue	261,325	261,325	-	-
	<u>292,376</u>	<u>292,376</u>	<u>-</u>	<u>-</u>
Fund balances				
Nonspendable - prepaid items	5,633	5,633	-	-
Restricted for:				
Streets and highways	821,218	821,218	-	-
Law enforcement	149,174	-	149,174	-
Other purposes	4,999	-	-	4,999
	<u>981,024</u>	<u>826,851</u>	<u>149,174</u>	<u>4,999</u>
Total fund balances	<u>\$ 1,273,400</u>	<u>\$ 1,119,227</u>	<u>\$ 149,174</u>	<u>\$ 4,999</u>
Total liabilities and fund balances	<u>\$ 1,273,400</u>	<u>\$ 1,119,227</u>	<u>\$ 149,174</u>	<u>\$ 4,999</u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Special Revenue Funds
 For the year ended June 30, 2012

	Total other special revenue funds	Local Street	Criminal Forfeitures	Tree Replacement
REVENUES				
Intergovernmental revenues - State	\$ 782,326	\$ 780,326	\$ -	\$ 2,000
Charges for services	1,279	1,079	-	200
Fines and forfeitures	11,422	-	11,422	-
Investment earnings	28,264	27,091	1,136	37
Other	110,496	110,496	-	-
Total revenues	933,787	918,992	12,558	2,237
EXPENDITURES				
Current				
Public safety	4,212	-	4,212	-
Highways, streets and bridges	1,235,481	1,235,481	-	-
Culture and recreation	2,357	-	-	2,357
Total expenditures	1,242,050	1,235,481	4,212	2,357
Excess of revenues over (under) expenditures	(308,263)	(316,489)	8,346	(120)
OTHER FINANCING SOURCES				
Transfers in	480,000	480,000	-	-
Net change in fund balances	171,737	163,511	8,346	(120)
Fund balances at July 1, 2011	809,287	663,340	140,828	5,119
Fund balances at June 30, 2012	\$ 981,024	\$ 826,851	\$ 149,174	\$ 4,999

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 Other Special Revenue Funds
 For the year ended June 30, 2012

	Local Street			Criminal Forfeitures		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES						
Intergovernmental revenues						
Federal	\$ 20,000	\$ -	\$ (20,000)	\$ -	\$ -	\$ -
State	770,988	780,326	9,338	-	-	-
Charges for services	-	1,079	1,079	-	-	-
Fines and forfeitures	-	-	-	12,000	11,422	(578)
Investment earnings	20,000	27,091	7,091	1,000	1,136	136
Other	90,000	110,496	20,496	-	-	-
Total revenues	900,988	918,992	18,004	13,000	12,558	(442)
EXPENDITURES						
Current						
Public safety	-	-	-	5,000	4,212	788
Highways, streets and bridges	1,309,890	1,235,481	74,409	-	-	-
Total expenditures	1,309,890	1,235,481	74,409	5,000	4,212	788
Excess of revenues over (under) expenditures	(408,902)	(316,489)	92,413	8,000	8,346	346
OTHER FINANCING SOURCES						
Transfers in	480,000	480,000	-	-	-	-
Net change in fund balances	\$ 71,098	163,511	\$ 92,413	\$ 8,000	8,346	\$ 346
Fund balances at July 1, 2011		663,340			140,828	
Fund balances at June 30, 2012		\$ 826,851			\$ 149,174	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 Other Special Revenue Funds
 For the year ended June 30, 2012

	Tree Replacement		
	Final budget	Actual	Variance - positive (negative)
REVENUES			
Intergovernmental revenues - State	\$ 2,000	\$ 2,000	\$ -
Charges for services	-	200	200
Investment earnings	50	37	(13)
Total revenues	2,050	2,237	187
EXPENDITURES			
Current			
Culture and recreation	2,500	2,357	143
Net change in fund balances	\$ (450)	(120)	\$ 330
Fund balances at July 1, 2011		5,119	
Fund balances at June 30, 2012		\$ 4,999	

City of Muskegon
COMBINING BALANCE SHEET
 Other Capital Projects Funds
 June 30, 2012

	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	Neighborhood Stabilization	Economic Development - Sappi
ASSETS											
Cash and investments	\$ 2,076,276	\$ 557,159	\$ 575,878	\$ 217,452	\$ 166,084	\$ -	\$ 29,331	\$ -	\$ 23,779	\$ -	\$ 506,593
Receivables											
Accounts and loans (net of allowance for uncollectibles)	561,990	18,478	-	-	20,946	362,101	156,547	-	-	3,918	-
Special assessments	79,958	-	79,958	-	-	-	-	-	-	-	-
Due from other governmental units	588,596	-	-	-	-	452,380	31,359	19,254	-	85,603	-
Total assets	\$ 3,306,820	\$ 575,637	\$ 655,836	\$ 217,452	\$ 187,030	\$ 814,481	\$ 217,237	\$ 19,254	\$ 23,779	\$ 89,521	\$ 506,593
LIABILITIES AND FUND BALANCES (DEFICITS)											
Liabilities											
Accounts payable	\$ 41,481	\$ -	\$ -	\$ -	\$ -	\$ 29,206	\$ 5,728	\$ 4,742	\$ -	\$ 1,805	\$ -
Accrued liabilities	4,652	-	-	-	-	2,495	-	1,184	-	973	-
Due to other funds	782,150	-	-	-	-	506,163	-	195,829	-	80,158	-
Deferred revenue	436,422	16,000	80,062	-	-	276,617	63,743	-	-	-	-
Total liabilities	1,264,705	16,000	80,062	-	-	814,481	69,471	201,755	-	82,936	-
Fund balances (deficits)											
Nonspendable - long-term loans receivable	177,493	-	-	-	20,946	-	156,547	-	-	-	-
Assigned for capital projects	2,055,904	559,637	575,774	217,452	166,084	-	-	-	23,779	6,585	506,593
Unassigned	(191,282)	-	-	-	-	-	(8,781)	(182,501)	-	-	-
Total fund balances (deficits)	2,042,115	559,637	575,774	217,452	187,030	-	147,766	(182,501)	23,779	6,585	506,593
Total liabilities and fund balances (deficits)	\$ 3,306,820	\$ 575,637	\$ 655,836	\$ 217,452	\$ 187,030	\$ 814,481	\$ 217,237	\$ 19,254	\$ 23,779	\$ 89,521	\$ 506,593

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
 Other Capital Projects Funds
 For the year ended June 30, 2012

	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	Neighborhood Stabilization	Economic Development - Sappi
REVENUES											
Intergovernmental revenues											
Federal	\$ 1,285,652	\$ -	\$ -	\$ -	\$ -	\$ 1,010,777	\$ -	\$ 274,875	\$ -	\$ -	\$ -
State	121,630	-	-	-	-	-	121,630	-	-	-	-
Charges for services	63,300	40,416	-	-	-	-	-	-	22,884	-	-
Investment earnings	33,868	5,700	11,581	1,711	1,473	53	9,250	-	116	-	3,984
Other	426,926	37,659	55,668	-	34,498	2,682	-	-	23,400	273,019	-
Total revenues	1,931,376	83,775	67,249	1,711	35,971	1,013,512	130,880	274,875	46,400	273,019	3,984
EXPENDITURES											
Debt service											
Principal	219,597	-	125,000	-	-	-	94,597	-	-	-	-
Interest and fees	31,031	-	26,705	-	-	-	4,326	-	-	-	-
Capital outlay	1,935,812	96,734	5,311	240	25,583	1,026,759	120,505	370,846	23,400	266,434	-
Total expenditures	2,186,440	96,734	157,016	240	25,583	1,026,759	219,428	370,846	23,400	266,434	-
Excess of revenues over (under) expenditures	(255,064)	(12,959)	(89,767)	1,471	10,388	(13,247)	(88,548)	(95,971)	23,000	6,585	3,984
OTHER FINANCING SOURCES (USES)											
Proceeds from sale of capital assets	113,981	21,090	-	-	-	40,803	-	52,088	-	-	-
Transfers in	27,556	-	-	-	-	-	-	27,556	-	-	-
Transfers out	(28,681)	-	-	-	-	(27,556)	(1,125)	-	-	-	-
Total other financing sources (uses)	112,856	21,090	-	-	-	13,247	(1,125)	79,644	-	-	-
Net change in fund balances	(142,208)	8,131	(89,767)	1,471	10,388	-	(89,673)	(16,327)	23,000	6,585	3,984
Fund balances (deficits) at July 1, 2011	2,184,323	551,506	665,541	215,981	176,642	-	237,439	(166,174)	779	-	502,609
Fund balances (deficits) at June 30, 2012	\$ 2,042,115	\$ 559,637	\$ 575,774	\$ 217,452	\$ 187,030	\$ -	\$ 147,766	\$ (182,501)	\$ 23,779	\$ 6,585	\$ 506,593

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
Internal Service Funds
June 30, 2012

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 4,190,223	\$ 53,417	\$ 1,819,863	\$ 1,933,642	\$ 383,301
Accounts receivable	101,879	13,593	8,172	80,114	-
Inventories	39,587	-	39,587	-	-
Prepaid items	230,969	2,695	54,501	169,097	4,676
Total current assets	4,562,658	69,705	1,922,123	2,182,853	387,977
NONCURRENT ASSETS					
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	190,872	-	-	-	190,872
Buildings and improvements	1,559,334	-	-	-	1,559,334
Machinery and equipment	7,381,412	26,355	7,308,408	-	46,649
Less accumulated depreciation	(7,437,020)	(26,355)	(6,139,025)	-	(1,271,640)
Net capital assets	1,759,598	-	1,169,383	-	590,215
Advances to component units	1,106,666	-	553,333	553,333	-
Total noncurrent assets	2,866,264	-	1,722,716	553,333	590,215
Total assets	7,428,922	69,705	3,644,839	2,736,186	978,192

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Accounts payable	574,332	1,018	48,737	509,680	14,897
Accrued liabilities	16,055	3,783	4,944	472	6,856
Due to other governmental units	11,996	11,996	-	-	-
Bonds and other obligations, due within one year	14,800	2,700	4,600	300	7,200
Total current liabilities	617,183	19,497	58,281	510,452	28,953
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	73,692	13,481	22,920	1,411	35,880
Total liabilities	690,875	32,978	81,201	511,863	64,833
NET ASSETS					
Invested in capital assets	1,759,598	-	1,169,383	-	590,215
Unrestricted	4,978,449	36,727	2,394,255	2,224,323	323,144
Total net assets	\$ 6,738,047	\$ 36,727	\$ 3,563,638	\$ 2,224,323	\$ 913,359

City of Muskegon
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT)
Internal Service Funds
For the year ended June 30, 2012

	<u>Total internal service funds</u>	<u>Engineering Services</u>	<u>Equipment</u>	<u>General Insurance</u>	<u>Public Service Building</u>
OPERATING REVENUES					
Charges for services	\$ 7,943,478	\$ 428,481	\$ 2,033,929	\$ 4,511,726	\$ 969,342
Other	89,599	30,783	53,417	5,399	-
Total operating revenues	8,033,077	459,264	2,087,346	4,517,125	969,342
OPERATING EXPENSES					
Administration	360,000	96,000	126,108	81,096	56,796
Insurance premiums and claims	4,277,725	-	-	4,277,725	-
Other operations	3,064,260	366,409	1,903,553	32,969	761,329
Depreciation	494,365	-	424,394	-	69,971
Total operating expenses	8,196,350	462,409	2,454,055	4,391,790	888,096
Operating income (loss)	(163,273)	(3,145)	(366,709)	125,335	81,246
NONOPERATING REVENUES					
Investment earnings	33,677	4	20,707	10,395	2,571
Gain on sale of capital assets	28,963	-	28,963	-	-
Total nonoperating revenues	62,640	4	49,670	10,395	2,571
Income (loss) before transfers	(100,633)	(3,141)	(317,039)	135,730	83,817
Transfers in	103,046	75,000	-	28,046	-
Change in net assets	2,413	71,859	(317,039)	163,776	83,817
Net assets (deficit) at July 1, 2011	6,735,634	(35,132)	3,880,677	2,060,547	829,542
Net assets at June 30, 2012	\$ 6,738,047	\$ 36,727	\$ 3,563,638	\$ 2,224,323	\$ 913,359

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2012

	<u>Total internal service funds</u>	<u>Engineering Services</u>	<u>Equipment</u>	<u>General Insurance</u>	<u>Public Service Building</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 161,099	\$ 108,215	\$ 51,375	\$ 1,509	\$ -
Receipts from interfund services provided	7,943,478	428,481	2,033,929	4,511,726	969,342
Payments to suppliers	(4,607,163)	(124,249)	(1,155,952)	(3,083,748)	(243,214)
Payments to employees	(1,490,276)	(248,310)	(339,863)	(397,355)	(504,748)
Payments for interfund services used	(858,405)	(185,724)	(572,161)	(3,772)	(96,748)
Net cash provided by (used for) operating activities	1,148,733	(21,587)	17,328	1,028,360	124,632
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	103,046	75,000	-	28,046	-
Advances to component units	(1,106,666)	-	(553,333)	(553,333)	-
Net cash provided by (used for) noncapital financing activities	(1,003,620)	75,000	(553,333)	(525,287)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(589,536)	-	(577,576)	-	(11,960)
Proceeds from sale of capital assets	32,486	-	32,486	-	-
Net cash used for capital and related financing activities	(557,050)	-	(545,090)	-	(11,960)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	33,677	4	20,707	10,395	2,571
Net increase (decrease) in cash and investments	(378,260)	53,417	(1,060,388)	513,468	115,243
Cash and investments at July 1, 2011	4,568,483	-	2,880,251	1,420,174	268,058
Cash and investments at June 30, 2012	\$ 4,190,223	\$ 53,417	\$ 1,819,863	\$ 1,933,642	\$ 383,301
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ (163,273)	\$ (3,145)	\$ (366,709)	\$ 125,335	\$ 81,246
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	494,365	-	424,394	-	69,971
Change in assets and liabilities					
Receivables, net	71,500	77,432	(2,042)	(3,890)	-
Inventories	(9,751)	-	(9,751)	-	-
Prepaid items	517,353	(966)	7,234	510,313	772
Accounts payable	372,496	12,168	(31,145)	397,305	(5,832)
Accrued liabilities	(40,537)	(13,656)	(4,653)	(703)	(21,525)
Due to other funds	(93,420)	(93,420)	-	-	-
Net cash provided by (used for) operating activities	\$ 1,148,733	\$ (21,587)	\$ 17,328	\$ 1,028,360	\$ 124,632

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, 2012

	<u>Total funds</u>	<u>Collector</u>	<u>Current tax</u>	<u>Rehab Loan Escrow</u>
ASSETS				
Cash and investments	\$ 705,640	\$ 705,475	\$ 165	\$ -
Accounts receivable	1,867	1,867	-	-
Total assets	\$ 707,507	\$ 707,342	\$ 165	\$ -
LIABILITIES				
Accounts payable	\$ 228,052	\$ 228,052	\$ -	\$ -
Due to other governmental units	390,092	389,927	165	-
Deposits held for others	89,363	89,363	-	-
Total liabilities	\$ 707,507	\$ 707,342	\$ 165	\$ -

City of Muskegon
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 Agency Funds
 For the year ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<u>COLLECTOR FUND</u>				
ASSETS				
Cash and investments	\$ 742,906	\$ 15,110,400	\$ 15,147,831	\$ 705,475
Accounts receivable	1,867	152,217	152,217	1,867
Total assets	\$ 744,773	\$ 15,262,617	\$ 15,300,048	\$ 707,342
LIABILITIES				
Accounts payable	\$ 213,981	\$ 9,877,066	\$ 9,862,995	\$ 228,052
Due to other governmental units	462,345	2,162,382	2,234,800	389,927
Deposits held for others	68,447	2,536,100	2,515,184	89,363
Total liabilities	\$ 744,773	\$ 14,575,548	\$ 14,612,979	\$ 707,342
<u>CURRENT TAX FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 30,962,144	\$ 30,961,979	\$ 165
LIABILITIES				
Due to other governmental units	\$ -	\$ 21,917,176	\$ 21,917,011	\$ 165
Due to other funds	-	8,285,061	8,285,061	-
Due to component units	-	584,703	584,703	-
Deposits held for others	-	175,204	175,204	-
Total liabilities	\$ -	\$ 30,962,144	\$ 30,961,979	\$ 165
<u>REHAB LOAN ESCROW FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 1,686	\$ 1,686	\$ -
LIABILITIES				
Accounts payable	\$ -	\$ 1,686	\$ 1,686	\$ -
<u>ALL AGENCY FUNDS</u>				
ASSETS				
Cash and investments	\$ 742,906	\$ 46,074,230	\$ 46,111,496	\$ 705,640
Accounts receivable	1,867	152,217	152,217	1,867
Total assets	\$ 744,773	\$ 46,226,447	\$ 46,263,713	\$ 707,507
LIABILITIES				
Accounts payable	\$ 213,981	\$ 9,878,752	\$ 9,864,681	\$ 228,052
Due to other governmental units	462,345	24,079,558	24,151,811	390,092
Due to other funds	-	8,285,061	8,285,061	-
Due to component units	-	584,703	584,703	-
Deposits held for others	68,447	2,711,304	2,690,388	89,363
Total liabilities	\$ 744,773	\$ 45,539,378	\$ 45,576,644	\$ 707,507

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, 2012

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
ASSETS					
Cash and investments	\$ 457,790	\$ 35,595	\$ 245,957	\$ 19,638	\$ 156,600
Prepaid items	61,149	61,149	-	-	-
Total assets	\$ 518,939	\$ 96,744	\$ 245,957	\$ 19,638	\$ 156,600
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 59,185	\$ -	\$ 59,185	\$ -	\$ -
Advances from primary government	1,660,000	-	-	-	1,660,000
Total liabilities	1,719,185	-	59,185	-	1,660,000
Fund balances					
Nonspendable - prepaid items	61,149	61,149	-	-	-
Unassigned	(1,261,395)	35,595	186,772	19,638	(1,503,400)
Total fund balances	(1,200,246)	96,744	186,772	19,638	(1,503,400)
Total liabilities and fund balances	\$ 518,939	\$ 96,744	\$ 245,957	\$ 19,638	\$ 156,600

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2012

Total fund balance—governmental funds \$ (1,200,246)

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>(1,481,896)</u>	2,716,362

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

Bond issuance costs	165,405	
Accumulated amortization	<u>(6,562)</u>	158,843

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

(41,630)

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.

(7,364,932)

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

\$ (5,731,603)

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Discretely Presented Component Units
For the year ended June 30, 2012

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
REVENUES					
Property taxes	\$ 584,703	\$ 83,420	\$ 305,797	\$ 53,057	\$ 142,429
Intergovernmental revenues - Local	100,000	100,000	-	-	-
Investment earnings	6,853	3,568	2,478	136	671
Other	75,000	75,000	-	-	-
Total revenues	766,556	261,988	308,275	53,193	143,100
EXPENDITURES					
Current					
Community and economic development	1,821,284	250	59,185	50,000	1,711,849
Debt service					
Principal	345,000	80,000	265,000	-	-
Interest and fees	292,235	222,772	69,463	-	-
Bond issuance costs	114,766	114,766	-	-	-
Total expenditures	2,573,285	417,788	393,648	50,000	1,711,849
Excess of revenues over (under) expenditures	(1,806,729)	(155,800)	(85,373)	3,193	(1,568,749)
OTHER FINANCING SOURCES (USES)					
Refunding long-term debt issued	4,100,000	4,100,000	-	-	-
Premium on refunding long-term debt issued	276,196	276,196	-	-	-
Payment on refunding of long-term debt	(4,145,000)	(4,145,000)	-	-	-
Total other financing sources (uses)	231,196	231,196	-	-	-
Net change in fund balances	(1,575,533)	75,396	(85,373)	3,193	(1,568,749)
Fund balances at July 1, 2011	375,287	21,348	272,145	16,445	65,349
Fund balances (deficit) at June 30, 2012	\$ (1,200,246)	\$ 96,744	\$ 186,772	\$ 19,638	\$ (1,503,400)

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES**
Discretely Presented Component Units
For the year ended June 30, 2012

Net change in fund balances—total governmental funds \$ (1,575,533)

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	\$ (268,710)	
Bond issuance costs	<u>114,766</u>	(153,944)

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets		(4,376,196)
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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.		4,489,945
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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.		<u>(3,930)</u>
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Change in net assets of governmental activities		<u><u>\$ (1,619,658)</u></u>
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SCHEDULE OF INDEBTEDNESS

City of Muskegon

SCHEDULE OF INDEBTEDNESS

June 30, 2012

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2011	6/30/2012	Annual Interest Payable		
Business-Type Activities Bonds and Loans Payable:									
Water supply system bonds (\$119,764 unamortized premium)	4/1/2010	\$ 5,995,000	2.00%	05/01/12	\$ 600,000	\$ -	\$ -		
			3.00%	05/01/13	610,000	610,000	172,088		
			2.77%	05/01/14	640,000	640,000	153,788		
			3.50%	05/01/15	660,000	660,000	136,088		
			3.25%	05/01/16	685,000	685,000	112,988		
			4.00%	05/01/17	710,000	710,000	90,725		
			4.00%	05/01/18	740,000	740,000	62,325		
			4.25%	05/01/19	770,000	770,000	32,725		
							<u>5,415,000</u>	<u>4,815,000</u>	<u>760,725</u>
			Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/11	630,000	-
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		
				<u>10,955,000</u>	<u>10,325,000</u>	<u>1,610,591</u>			
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 16,370,000</u>	<u>\$ 15,140,000</u>	<u>\$ 2,371,316</u>		

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2012

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2011	6/30/2012	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	3.70%	06/01/12	125,000	-	-
			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
							685,000
Capital improvement bonds of 2006 (fire station, recreation) (\$12,306 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/11	70,000	-	-
			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			
				5,235,000	5,165,000	2,783,498	
Capital improvement bonds of 2011 (streets)	9/30/2011	\$ 2,000,000	2.98%	09/01/12	-	175,000	56,993
			2.98%	09/01/13	-	180,000	51,703
			2.98%	09/01/14	-	185,000	46,265
			2.98%	09/01/15	-	190,000	40,677
			2.98%	09/01/16	-	195,000	34,941
			2.98%	09/01/17	-	200,000	29,056
			2.98%	09/01/18	-	210,000	22,947
			2.98%	09/01/19	-	215,000	16,614
			2.98%	09/01/20	-	220,000	10,132
			2.98%	09/01/21	-	230,000	3,427
				-	2,000,000	312,755	
State of Michigan environmental assessment loan	6/18/2010	\$ 500,000	2.00%	03/18/12	28,527	-	-
			2.00%	03/18/13	29,098	20,211	3,005
			2.00%	03/18/14	29,680	20,615	2,601
			2.00%	03/18/15	30,274	21,027	2,189
			2.00%	03/18/16	30,879	21,448	1,768
			2.00%	03/18/17	31,497	21,877	1,339
			2.00%	03/18/18	32,126	22,314	902
			2.00%	03/18/19	32,769	22,761	455
				244,850	150,253	12,259	
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 6,164,850	\$ 7,875,253	\$ 3,165,682
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 22,534,850	\$ 23,015,253	\$ 5,536,997

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2012

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2011	6/30/2012	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 (\$28,736 unamortized premium)	3/22/2011	\$ 2,045,000	2.00%	06/01/12	265,000	-	-
			2.50%	06/01/13	275,000	275,000	59,162
			2.75%	06/01/14	280,000	280,000	52,288
			3.25%	06/01/15	285,000	285,000	44,588
			3.50%	06/01/16	300,000	300,000	35,326
			3.75%	06/01/17	310,000	310,000	24,826
			4.00%	06/01/18	330,000	330,000	13,200
					2,045,000	1,780,000	229,390
Local Development Finance Authority Smartzone Bonds	11/1/2002	\$ 4,725,000	3.88%	11/01/11	80,000	-	-
			4.00%	11/01/12	180,000	180,000	3,600
			3.90%	11/01/13	240,000	-	-
			4.05%	11/01/14	305,000	-	-
			4.05%	11/01/15	325,000	-	-
			4.15%	11/01/16	340,000	-	-
			4.25%	11/01/17	355,000	-	-
			4.35%	11/01/18	375,000	-	-
			4.45%	11/01/19	395,000	-	-
			4.60%	11/01/20	400,000	-	-
			4.60%	11/01/21	255,000	-	-
			4.60%	11/01/22	265,000	-	-
			4.85%	11/01/23	280,000	-	-
			4.85%	11/01/24	295,000	-	-
			4.85%	11/01/25	315,000	-	-
					4,405,000	180,000	3,600
Local Development Finance Authority Smartzone Refunding Bonds (\$276,196 unamortized premium)	3/20/2012	\$ 4,100,000	0.00%	11/01/12	-	-	142,466
			0.00%	11/01/13	-	260,000	125,300
			2.00%	11/01/14	-	320,000	119,500
			2.00%	11/01/15	-	335,000	112,950
			2.00%	11/01/16	-	345,000	104,425
			3.00%	11/01/17	-	355,000	93,925
			3.00%	11/01/18	-	375,000	81,100
			4.00%	11/01/19	-	390,000	65,800
			4.00%	11/01/20	-	395,000	50,100
			4.00%	11/01/21	-	245,000	37,300
			4.00%	11/01/22	-	255,000	28,575
			3.00%	11/01/23	-	265,000	20,775
			3.00%	11/01/24	-	275,000	12,675
			3.00%	11/01/25	-	285,000	4,275
					-	4,100,000	999,166
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 7,450,000	\$ 7,060,000	\$ 1,232,156
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 29,984,850	\$ 30,075,253	\$ 6,769,153

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.	110
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.	115
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.	121
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.	125
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.	127

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Muskegon

NET ASSETS BY COMPONENT

Last Ten Fiscal Years

	December 31							June 30		
	2003	2004	2005 (a)	2006	2007	2008	2009	2010	2011	2012
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	\$ 67,944,957	\$ 66,862,806
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	3,656,410	3,526,343
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	12,598,197	12,836,573
Total Governmental Net Assets	<u>\$ 47,081,472</u>	<u>\$ 53,280,853</u>	<u>\$ 80,351,629</u>	<u>\$ 82,346,476</u>	<u>\$ 83,707,754</u>	<u>\$ 83,831,142</u>	<u>\$ 80,941,870</u>	<u>\$ 84,697,069</u>	<u>\$ 84,199,564</u>	<u>\$ 83,225,722</u>
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	\$ 40,419,728	\$ 40,147,600
Restricted	822,559	822,559	822,559	822,559	822,559	822,559	672,000	672,000	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	9,211,610	8,961,713
Total Business-type Activities Net Assets	<u>\$ 39,119,373</u>	<u>\$ 41,079,291</u>	<u>\$ 44,228,791</u>	<u>\$ 47,174,718</u>	<u>\$ 48,160,348</u>	<u>\$ 48,474,688</u>	<u>\$ 48,532,442</u>	<u>\$ 49,408,135</u>	<u>\$ 50,303,338</u>	<u>\$ 49,781,313</u>
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	\$ 108,364,685	\$ 107,010,406
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	4,328,410	4,198,343
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	21,809,807	21,798,286
Total Primary Government Net Assets	<u>\$ 86,200,845</u>	<u>\$ 94,360,144</u>	<u>\$ 124,580,420</u>	<u>\$ 129,521,194</u>	<u>\$ 131,868,102</u>	<u>\$ 132,305,830</u>	<u>\$ 129,474,312</u>	<u>\$ 134,105,204</u>	<u>\$ 134,502,902</u>	<u>\$ 133,007,035</u>

(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.

City of Muskegon
CHANGES IN NET ASSETS

Last Ten Fiscal Years

	Year Ended December 31							Period Ended		
	2003	2004	2005	2006	2007	2008	2009	June 30	Year Ended June 30	
								2010	2011	2012
EXPENSES										
Governmental Activities										
Public representation	\$ 887,496	\$ 866,669	\$ 885,365	\$ 904,109	\$ 925,124	\$ 986,696	\$ 923,911	\$ 445,251	\$ 854,249	\$ 866,809
Administrative services	1,227,407	1,132,229	803,783	732,715	783,713	782,362	698,022	317,873	645,585	566,161
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	2,373,141	2,399,147
Public safety	11,583,282	12,164,389	12,481,826	13,059,358	12,802,488	13,955,811	13,614,112	6,332,728	13,390,888	13,213,251
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	3,471,051	2,958,367
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	7,013,216	6,568,448
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	2,830,867	2,447,373
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	1,524,331	1,601,316
General administration	1,601,112	1,725,225	1,608,108	1,143,963	358,225	574,955	451,651	210,117	794,115	791,197
Interest on long-term debt	223,717	193,021	170,814	206,768	343,106	324,076	288,073	139,006	272,940	283,186
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	33,170,383	31,695,255
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	5,869,241	5,974,173
Sewer	3,416,372	3,745,156	3,953,838	5,006,594	5,066,693	5,503,144	5,426,321	2,525,067	5,288,622	6,202,359
Marina and launch ramp	325,401	351,705	343,599	332,826	392,994	347,642	310,773	150,055	292,889	310,174
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	11,450,752	12,486,706
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	\$ 44,621,135	\$ 44,181,961
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	\$ 196,886	\$ 196,886
Administrative services	292,665	314,028	311,529	306,964	287,011	257,850	271,117	129,630	263,473	270,886
Financial services	591,174	645,166	537,445	728,332	744,109	726,572	818,845	475,031	879,905	881,229
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	1,109,659	1,136,942
Public works	266,045	452,606	467,849	588,566	407,569	382,072	383,733	209,203	642,082	480,487
Highways, streets and bridges	273,893	555,018	267,689	263,423	372,133	301,955	251,840	139,009	451,473	230,241
Community and economic development	977,448	414,543	815,980	762,220	356,051	297,854	249,241	186,572	457,952	617,379
Culture and recreation	1,026,822	1,151,687	1,141,865	809,228	454,154	405,520	445,891	129,025	300,367	315,010
General administration	122,447	200,434	314,658	170,240	64,366	99,494	123,426	59,373	116,690	116,690
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	5,425,165	4,651,576
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	2,257,163	1,568,005
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	12,100,815	10,465,331
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	5,454,760	5,254,095
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	6,652,851	6,455,634
Marina and launch ramp	274,258	266,981	248,460	267,412	281,679	250,266	242,055	156,767	194,311	208,370
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	256,612	657,521	100,373	710,641	-	-	5,179	-	20,074	-
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	12,321,996	11,918,099
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	\$ 24,422,811	\$ 22,383,430
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)	(21,069,568)	(21,229,924)
Business-type Activities	439,780	1,765,730	2,931,447	2,283,867	775,036	165,350	33,911	855,943	871,244	(568,607)
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)	\$ (20,198,324)	\$ (21,798,531)

City of Muskegon
CHANGES IN NET ASSETS - CONTINUED

Last Ten Fiscal Years

	Year Ended December 31					Period Ended June 30		Year Ended June 30		
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	\$ 8,844,004	\$ 8,383,224
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	6,866,967	7,663,534
Franchise fees	265,532	-	286,265	285,124	297,200	304,812	321,852	178,239	362,103	342,376
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	3,846,859	3,577,848
Unrestricted investment earnings	281,492	170,094	420,595	832,300	1,247,520	730,142	185,436	104,086	193,435	100,073
Miscellaneous	109,620	68,405	70,402	64,645	88,035	160,460	226,124	51,638	432,880	154,531
Gain on sale of capital asset	62,992	70,886	300,037	81,372	1,604	323,048	123,258	65,155	25,815	34,496
Transfers	-	(142,420)	(80,000)	(540,000)	(40,000)	(40,000)	-	(3,760)	-	-
Total Governmental Program Revenues	<u>19,332,598</u>	<u>19,101,577</u>	<u>20,534,150</u>	<u>20,918,001</u>	<u>21,841,630</u>	<u>22,433,067</u>	<u>19,819,464</u>	<u>14,413,944</u>	<u>20,572,063</u>	<u>20,256,082</u>
Business-type Activities										
Unrestricted investment earnings	71,628	51,768	138,053	122,060	170,594	108,990	23,843	15,990	23,959	46,582
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	<u>(17,139)</u>	<u>194,188</u>	<u>218,053</u>	<u>662,060</u>	<u>210,594</u>	<u>148,990</u>	<u>23,843</u>	<u>19,750</u>	<u>23,959</u>	<u>46,582</u>
Total Primary Government program revenues	<u>\$ 19,315,459</u>	<u>\$ 19,295,765</u>	<u>\$ 20,752,203</u>	<u>\$ 21,580,061</u>	<u>\$ 22,052,224</u>	<u>\$ 22,582,057</u>	<u>\$ 19,843,307</u>	<u>\$ 14,433,694</u>	<u>\$ 20,596,022</u>	<u>\$ 20,302,664</u>
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	(497,505)	(973,842)
Business-type Activities	422,641	1,959,918	3,149,500	2,945,927	985,630	314,340	57,754	875,693	895,203	(522,025)
Total Primary Government	<u>\$ 10,570,908</u>	<u>\$ 8,160,148</u>	<u>\$ 7,980,777</u>	<u>\$ 6,565,310</u>	<u>\$ 2,346,908</u>	<u>\$ 437,728</u>	<u>\$ (2,831,518)</u>	<u>\$ 4,630,892</u>	<u>\$ 397,698</u>	<u>\$ (1,495,867)</u>

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	December 31							June 30		
	2003	2004	2005	2006	2007	2008	2009	2010	2011 (a)	2012
General fund										
Reserved	\$ 110,642	\$ 74,349	\$ 79,356	\$ 177,076	\$ 180,410	\$ 214,819	\$ 187,633	\$ 300,969	\$ -	\$ -
Nonspendable	-	-	-	-	-	-	-	-	251,173	178,468
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	2,385,728	2,075,738
Unassigned	-	-	-	-	-	-	-	-	3,374,481	4,265,839
Unreserved	<u>2,320,776</u>	<u>2,370,842</u>	<u>2,440,249</u>	<u>2,512,963</u>	<u>2,740,222</u>	<u>2,168,906</u>	<u>1,451,029</u>	<u>5,737,485</u>	-	-
Total general fund	<u>\$ 2,431,418</u>	<u>\$ 2,445,191</u>	<u>\$ 2,519,605</u>	<u>\$ 2,690,039</u>	<u>\$ 2,920,632</u>	<u>\$ 2,383,725</u>	<u>\$ 1,638,662</u>	<u>\$ 6,038,454</u>	<u>\$ 6,011,382</u>	<u>\$ 6,520,045</u>
All other governmental funds										
Reserved	\$ 1,159,364	\$ 1,187,662	\$ 2,915,106	\$ 7,044,394	\$ 4,130,995	\$ 4,382,118	\$ 3,613,858	\$ 3,887,289	\$ -	\$ -
Nonspendable	-	-	-	-	-	-	-	-	1,704,256	1,568,318
Restricted	-	-	-	-	-	-	-	-	1,375,779	3,485,073
Assigned	-	-	-	-	-	-	-	-	2,073,027	2,055,904
Unassigned	-	-	-	-	-	-	-	-	(238,104)	(191,282)
Unreserved, reported in:										
Special revenue funds	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	3,849,868	2,187,667	1,239,763	390,282	635,676	675,898	554,273	6,035	-	-
Permanent funds	<u>63,798</u>	<u>22,896</u>	<u>22,890</u>	<u>77,300</u>	<u>84,413</u>	<u>60,813</u>	<u>15,613</u>	<u>16,979</u>	-	-
Total all other governmental funds	<u>\$ 8,481,731</u>	<u>\$ 6,090,656</u>	<u>\$ 7,088,044</u>	<u>\$ 10,542,072</u>	<u>\$ 9,313,099</u>	<u>\$ 7,887,715</u>	<u>\$ 6,243,861</u>	<u>\$ 6,073,344</u>	<u>\$ 4,914,958</u>	<u>\$ 6,918,013</u>

(a) In fiscal 2011, the City adopted GASB 54 which changed fund balance classifications.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	Year Ended December 31							Period Ended	Year Ended	Year Ended
	2003	2004	2005	2006	2007	2008	2009	June 30 2010	June 30 2011	June 30 2012
Revenues										
Taxes	\$ 13,306,798	\$ 13,767,040	\$ 14,521,769	\$ 15,052,708	\$ 15,420,032	\$ 15,728,859	\$ 14,673,012	\$ 11,855,182	\$ 15,146,430	\$ 15,506,668
Intergovernmental	18,879,071	15,448,865	15,445,949	14,703,371	12,752,363	13,012,035	12,400,408	4,785,494	11,525,749	9,899,379
Charges for services	3,307,607	3,437,220	3,147,066	2,938,246	2,722,894	2,463,975	2,620,372	1,338,194	2,769,204	2,596,328
Other	3,629,983	3,828,223	4,134,604	3,758,956	4,618,149	3,624,579	3,177,522	1,768,895	3,461,292	3,237,189
Total revenues	39,123,459	36,481,348	37,249,388	36,453,281	35,513,438	34,829,448	32,871,314	19,747,765	32,902,675	31,239,564
Expenditures										
Public representation	889,188	869,342	886,717	903,895	927,320	987,229	923,923	448,703	851,918	867,762
Administrative services	785,966	704,667	748,588	669,789	644,913	632,513	645,704	303,555	586,328	515,988
Financial services	1,846,558	1,829,276	1,905,714	2,056,580	2,231,519	2,298,830	2,406,623	1,241,430	2,352,709	2,407,131
Public safety	11,439,487	12,277,677	12,624,532	13,002,233	12,902,815	13,754,394	13,567,101	6,578,735	13,087,976	12,963,122
Public works	2,731,241	2,543,512	2,661,073	2,730,415	2,768,906	2,831,177	2,860,510	1,589,090	3,079,342	2,835,000
Highways, streets and bridges	11,800,017	8,654,931	9,531,840	8,023,539	6,504,915	6,414,453	3,436,069	1,823,089	3,226,377	2,756,010
Community and economic development	987,097	797,072	784,396	763,211	894,879	1,077,312	4,440,687	1,330,794	3,109,693	2,850,593
Culture and recreation	2,624,275	2,259,699	2,197,276	2,190,835	2,254,117	2,394,031	2,196,186	639,852	1,197,020	1,265,743
Other governmental functions	1,589,572	1,708,868	1,603,292	1,139,148	350,385	562,341	438,292	200,623	1,775,128	770,910
Debt service										
Principal	1,270,000	1,335,000	1,115,000	1,189,785	1,241,921	999,148	663,371	303,466	1,345,183	289,597
Interest and issuance costs	230,907	201,447	166,071	271,233	324,577	310,432	282,174	136,013	267,258	268,315
Capital outlay	4,496,631	6,139,597	3,734,082	6,066,783	5,683,657	5,473,828	3,517,741	980,822	3,301,273	2,948,610
Total expenditure	40,690,939	39,321,088	37,958,581	39,007,446	36,729,924	37,735,688	35,378,381	15,576,172	34,180,205	30,738,781
Excess of revenues over (under) expenditures	(1,567,480)	(2,839,740)	(709,193)	(2,554,165)	(1,216,486)	(2,906,240)	(2,507,067)	4,171,593	(1,277,530)	500,783
Other financing sources (uses)										
Transfers in	2,740,742	3,342,612	1,839,631	2,358,509	1,926,538	1,477,717	1,359,608	342,188	1,348,694	510,907
Transfers out	(2,740,742)	(3,233,369)	(1,947,677)	(2,926,554)	(1,994,584)	(1,409,491)	(1,309,910)	(359,971)	(1,376,740)	(613,953)
Bonds issued	1,578,009	-	1,061,900	5,626,331	-	500,000	-	-	-	2,000,000
Sale of capital assets	282,080	483,544	827,141	1,120,341	286,152	375,723	68,452	75,465	120,118	113,981
Total other financing sources (uses)	1,860,089	592,787	1,780,995	6,178,627	218,106	943,949	118,150	57,682	92,072	2,010,935
Net change in fund balances	\$ 292,609	\$ (2,246,953)	\$ 1,071,802	\$ 3,624,462	\$ (998,380)	\$ (1,962,291)	\$ (2,388,917)	\$ 4,229,275	\$ (1,185,458)	\$ 2,511,718
Debt service as a percentage of noncapital expenditures	4.15%	4.63%	3.74%	4.44%	5.05%	4.06%	2.97%	3.01%	5.22%	2.01%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year.

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

Fiscal 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
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%
2011	8,546,677	26.0%	6,599,753	20.1%	11,525,749	35.0%	2,769,204	8.4%	1,179,639	3.6%	447,254	1.4%	412,498	1.3%	1,421,901	4.3%	32,902,675	66.6%
2012	8,093,864	25.9%	7,412,804	23.7%	9,899,379	31.7%	2,596,328	8.3%	1,223,034	3.9%	459,401	1.5%	307,891	1.0%	1,246,863	4.0%	31,239,564	-5.1%

* 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.

City of Muskegon

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Year	Ad Valorem Assessment Roll					Industrial and Commercial Facilities Assessment Roll				Total Taxable Valuation	Total City	Taxable Value As a Percent Actual		
	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
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	10.0786	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	10.0774	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	51,056,856	-	58,621,682	710,016,399	11.0768	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	11.0755	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	11.0732	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	11.0685	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	11.0682	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	11.0680	91.48%
2010	332,105,030	-	144,721,736	109,507,141	586,333,907	104,029,037	690,362,944	4,111,154	9,129,000	-	13,240,154	703,603,098	12.0680	94.04%
2011	331,901,631	-	144,675,509	87,261,346	563,838,486	93,465,537	657,304,023	3,071,654	9,129,000	-	12,200,654	669,504,677	12.0749	94.95%

Assessed and Equalized Valuation of Property

Year	Ad Valorem Assessment Roll					Industrial and Commercial Facilities Assessment Roll				Total Assessed Valuation	Estimated Actual Value		
	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
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	110,600,499	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
2010	354,044,700	-	154,185,000	122,703,400	630,933,100	104,020,200	734,953,300	4,120,400	9,129,000	-	13,249,400	748,202,700	1,496,405,400
2011	354,307,945	-	154,700,200	90,467,700	599,475,845	93,456,700	692,932,545	3,080,900	9,129,000	-	12,209,900	705,142,445	1,410,284,890

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, 2012

Taxpayer	6/30/2012			12/31/2002		
	Taxable Valuation	Rank	Percent of Total Taxable Valuation	Taxable Valuation	Rank	Percent of Total Taxable Valuation
Consumers Energy	\$ 53,088,067	1	7.9%	\$ 66,317,118	1	9.3%
ESCO Company	6,793,300	2	1.0%	6,034,949	10	0.8%
GE Aviation	6,695,200	3	1.0%	8,454,728	4	1.2%
ADAC Plastics Inc	5,648,200	4	0.8%	9,395,760	3	1.3%
DTE Energy (formerly MichCon)	5,026,600	5	0.8%	7,577,700	7	1.1%
Muskegon SC Holdings LLC	4,503,400	6	0.7%			0.0%
Michigan Electric Transmission	4,381,900	7	0.7%	-		0.0%
Glen Oaks Apartments LLC	4,280,600	8	0.6%	-		0.0%
Melching Inc (formerly Sappi)	3,943,179	9	0.6%	62,260,158	2	8.7%
Lorin Industries	3,825,278	10	0.6%	7,233,210	9	1.0%
Terrace Partners LLC	-		0.0%	7,754,826	5	1.1%
Brunswick Corp	-		0.0%	7,584,890	6	1.1%
Neway Anchorlok International	-		0.0%	7,509,500	8	1.1%
Total - 10 Largest	98,185,724		14.7%	190,122,839		26.6%
Total - All Other	571,318,953		85.3%	523,441,136		73.4%
	<u>\$ 669,504,677</u>		<u>100.0%</u>	<u>\$ 713,563,975</u>		<u>100.0%</u>

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
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
2010	9.5000	0.0680	2.5000	12.0680	2.4000
2011	9.5000	0.0749	2.5000	12.0749	2.4000

Overlapping - County-Wide Rates

Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College
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
2010	6.6957	0.4597	2.2987	0.9996	2.2037
2011	6.6957	0.4597	2.2987	0.9996	2.2037

Overlapping - School District

Year	Operating	Debt	Total	State Education
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
2010	18.0000	5.7500	23.7500	6.0000
2011	18.0000	6.2500	24.2500	6.0000

Grand Total

Homestead	Non-Homestead
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
38.8754	56.8754
39.3823	57.3823

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 On Uncollected Delinquent Taxes	Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
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%
2010	8,945,500	7,784,052	87.0%	1,077,056	8,861,108	99.1%	58,027	70,745	13,647	1.59%
2011	8,583,284	7,457,610	86.9%	1,030,902	8,488,512	98.9%	54,707	80,068	12,935	1.72%

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

Taxable Income per Return <i>Individual and Joint Returns</i>	Year Ended June 30, 2012					Year Ended December 31, 2002				
	# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars	# 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	1,124	6%	\$ 1,037,000	\$ 10,370	0%	1,036	4%	\$ 1,131,500	\$ 11,315	0%
\$2,501-\$7,500	617	3%	5,420,800	54,208	1%	1,013	4%	6,299,800	62,998	1%
\$7,501-\$25,000	1,606	9%	43,916,400	439,164	6%	2,631	11%	54,334,100	543,341	8%
\$25,001-\$50,000	1,364	7%	85,936,300	859,363	12%	2,281	9%	102,797,600	1,027,976	15%
\$50,001-\$100,000	825	4%	96,252,900	962,529	13%	956	4%	79,918,900	799,189	12%
More than \$100,000	154	1%	42,944,500	429,445	6%	127	1%	25,941,500	259,415	4%
Subtotal	5,690	30%	\$ 275,507,900	\$ 2,755,079	37%	8,044	32%	\$ 270,423,400	\$ 2,704,234	40%
Non-Residents Taxpayers: <i>(Non-residents are taxed at a rate of 0.5% on income earned within the City.)</i>										
\$2,500 or less	1,684	9%	\$ 998,400	\$ 7,722	0%	2,111	9%	\$ 1,410,000	\$ 9,553	0%
\$2,501-\$7,500	1,120	6%	5,345,200	41,342	1%	1,566	6%	7,466,400	49,014	1%
\$7,501-\$25,000	2,603	14%	42,342,800	327,494	4%	3,957	16%	65,716,900	441,234	7%
\$25,001-\$50,000	3,061	16%	111,985,400	866,134	12%	4,707	19%	171,193,410	1,145,516	17%
\$50,001-\$100,000	2,169	12%	144,811,000	1,120,019	15%	2,055	8%	135,855,800	897,073	13%
More than \$100,000	622	3%	129,889,000	1,004,607	14%	533	2%	113,504,946	762,783	11%
Subtotal	11,259	60%	\$ 435,371,800	\$ 3,367,318	45%	14,929	60%	\$ 495,147,456	\$ 3,305,173	49%
All Other Returns <i>(Mostly corporate returns which pay at a rate of 1% on income earned in City and partnerships which pay based on partners residence status.)</i>										
Subtotal	1,750	9%	\$ 1,290,407		17%	1,850	7%	\$ 683,202		10%
Total	18,699	100%	\$ 7,412,804		100%	24,823	100%	\$ 6,692,609		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.

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities				Business-Type Activities					
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business- Type Activities	Total Primary Government	Per Capita
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	\$ 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	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	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	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	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	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	659
2010*	6,444,605	-	1,065,428	7,510,033	5,995,000	-	11,570,000	17,565,000	25,075,033	639
2011	5,920,000	-	244,850	6,164,850	5,415,000	-	10,955,000	16,370,000	22,534,850	587
2012	7,725,000	-	150,253	7,875,253	4,815,000	-	10,325,000	15,140,000	23,015,253	599

* 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.

City of Muskegon

DIRECT AND OVERLAPPING DEBT

June 30, 2012

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	Debt Supported by City General Revenues
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 15,140,000	\$ 15,140,000	\$ -
Capital Improvement Bonds	7,725,000	-	7,725,000
Intergovernmental Bonds	150,253	-	150,253
Component Unit Debt:			
Downtown Development Authority	2,780,000	2,780,000	-
Local Development Finance Authority	4,280,000	4,280,000	-
Total City Direct Debt	\$ 30,075,253	\$ 22,200,000	\$ 7,875,253

	Gross	City Share as Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 28,895,000	95.04%	\$ 27,461,808
Orchard View School District	43,357,548	25.85%	11,207,926
Reeths Puffer School District	75,857,061	6.20%	4,703,138
Muskegon Intermediate School District	-		-
Muskegon County	35,005,000	14.12%	4,942,706
Muskegon Community College	13,230,000	14.12%	1,868,076
Total Overlapping Debt	\$ 196,344,609		50,183,654
Total City Direct and Overlapping Debt			\$ 58,058,907

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

The percentage of overlapping debt is estimated using taxable property values. Applicable percentages were estimated by determining the portion of the City's taxable value that is within each overlapping government unit's boundaries. 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.

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010*	2011	2012
Debt Limit	\$ 76,377,881	\$ 75,663,530	\$ 76,252,738	\$ 78,773,640	\$ 84,174,359	\$ 85,933,940	\$ 82,198,965	\$ 82,198,965	\$ 78,308,925	\$ 73,585,150
Total net debt applicable to limit	9,726,900	9,191,900	9,918,800	16,142,939	15,591,018	15,481,870	14,778,499	14,435,033	12,929,850	14,375,253
Legal debt margin	\$ 66,650,981	\$ 66,471,630	\$ 66,333,938	\$ 62,630,701	\$ 68,583,341	\$ 70,452,070	\$ 67,420,466	\$ 67,763,932	\$ 65,379,075	\$ 59,209,897
Total net debt applicable to the limit as a percentage of debt limit	12.74%	12.15%	13.01%	20.49%	18.52%	18.02%	17.98%	17.56%	16.51%	19.54%

Legal Debt Margin Calculation for 2012:

Assessed Valuation:		\$ 735,851,500
Legal Debt Limit (10%)		73,585,150
Total Indebtedness:		
Debt not Subject to Limitation:	\$ 30,075,253	
Paid by Special Assessment	(560,000)	
Revenue Bonds	(15,140,000)	
Debt Subject to Limitation		<u>14,375,253</u>
Legal Debt Margin		<u>\$ 59,209,897</u>

* 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.

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	
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
2011	5,467,785	3,294,530	2,173,255	1,195,000	451,323	1,646,323	1.32
2012	5,273,720	3,441,078	1,832,642	1,230,000	410,187	1,640,187	1.12

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	
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			
2011				No System Indebtedness			
2012				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.

**City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS**

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School Enrollment	Building Permits		Unemployment
						Number	Value	
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%
2011	38,401	737,646,617	19,209	34.1	5,162	835	18,829,825	13.8%
2012	38,225	752,622,470	19,689	34.1	5,428	891	21,932,738	8.5%

SOURCE: US Census Bureau, Muskegon Area Intermediate School District (MAISD), City of Muskegon Inspections Department, Michigan Department of Technology, Management, & Budget

**City of Muskegon
PRINCIPAL EMPLOYERS**

Current Year and Ten Years Ago

Employer	2012			2003		
	Employees	Rank	Percentage of total City employment	Employees	Rank	Percentage of total City employment
Mercy General Health Partners	3,657	1	24.7%	2,400	1	14.1%
Muskegon Public Schools	1,570	2	10.6%	940	4	5.5%
County of Muskegon	980	3	6.6%	1,300	2	7.6%
State of Michigan	772	4	5.2%			0.0%
ADAC Plastics	592	5	4.0%	210	10	1.2%
Knoll Group	450	6	3.0%		-	0.0%
Muskegon Community College	446	7	3.0%		-	0.0%
Baker College	400	8	2.7%		-	0.0%
SAF Holland USA	335	9	2.3%	400	7	2.3%
GE Aviation formerly Johnson Technology	327	10	2.2%	490	6	2.9%
Verizon	-	-	0.0%	350	9	2.1%
Brunswick	-	-	0.0%	400	7	2.3%
Sappi/S.D. Warren Company	-	-	0.0%	610	5	3.6%
Hackley Hospital		-	0.0%	1,300	2	7.6%

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	2003	2004	2005	2006	2007	2008	2009	2010*	2011	2012
Administration	1.50	1.50	1.50	1.50	1.50	1.50	-	-	0.40	0.40
Affirmative Action	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.10	1.10
Cemetaries	3.52	3.52	3.25	3.00	3.25	3.25	3.25	2.50	2.20	1.75
City Assessors Office	-	-	-	-	-	-	-	-	-	-
City Clerk & Elections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	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	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.55	0.55
City Manager's Office	1.75	1.75	1.75	1.75	1.75	1.75	3.25	2.25	2.25	2.25
City Treasurer's Office	6.00	5.00	5.00	5.00	4.00	5.00	5.00	5.00	5.00	5.00
Civil Service	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00	-
Community Event Support	0.20	-	-	-	-	-	-	-	-	-
Environmental Services	4.00	3.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	5.00
Farmers Market	0.12	0.12	-	-	-	-	0.05	0.05	0.05	0.05
Finance Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00
Fire	43.00	41.00	40.00	38.00	38.00	38.00	38.00	36.00	33.00	35.00
Fire Safety Inspections	13.00	12.00	10.00	12.00	12.00	12.00	12.00	9.00	8.00	6.00
Forestry	1.93	0.93	-	-	-	-	-	-	-	-
General Recreation	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	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Parking	0.30	-	-	-	-	-	-	-	-	-
Parks	10.53	9.68	8.48	8.25	8.15	8.15	7.99	7.15	6.00	6.05
Planning, Zoning & Economic Development	7.50	6.50	6.00	6.00	6.00	6.00	6.00	5.00	4.00	3.00
Police	96.00	94.00	94.00	94.00	94.00	94.00	94.00	88.00	88.00	88.00
Sanitation	1.25	1.10	1.10	1.00	1.00	1.00	1.00	-	0.30	0.20
Senior Transit	-	-	-	-	-	-	-	-	-	0.05
MVH-Major Streets	15.30	15.45	15.25	16.00	17.75	15.75	13.75	12.00	12.00	11.70
MVH-Local Streets	7.20	7.00	7.00	7.00	7.00	6.00	8.00	7.00	7.00	6.70
MVH-State Trunklines	1.60	2.00	2.00	2.00	-	-	-	-	-	-
Walker Arena	0.12	0.12	-	-	-	-	-	-	-	-
Community Development	5.00	5.00	4.00	4.00	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	0.25	0.25	-
Lead Program	-	-	-	-	-	-	-	0.75	0.75	-
Sewer Maintenance	15.15	14.55	15.05	16.00	16.20	15.20	13.20	10.20	10.20	9.75
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00
Water Maintenance	15.65	15.15	14.65	13.00	12.50	13.50	15.40	12.40	12.40	11.75
Hartshorn Marina Fund	0.79	0.79	0.67	0.73	0.67	0.34	0.05	0.05	0.05	0.30
Public Service Building	3.30	3.65	3.85	3.45	3.45	3.45	3.70	8.95	8.05	7.95
Engineering	9.40	7.70	7.70	7.45	7.45	7.45	7.45	5.45	4.95	4.95
Equipment	7.70	8.00	8.00	8.95	8.25	8.25	8.50	7.25	6.25	6.25
	308.00	294.00	284.00	284.00	282.00	280.00	280.00	256.00	244.00	241.00

* 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	2003	2004	2005	2006	2007	2008	2009	2010*	2011	2012
<u>Administrative Services</u>										
Elections										
Number of registered voters	23,904	25,261	25,918	26,028	26,345	27,678	26,136	26,136	26,330	26,324
Number of votes cast:										
Last general election	8,916	14,169	14,169	10,410	10,410	15,271	15,271	15,271	8,106	1,933
Last city election	4,325	4,325	4,022	4,022	1,101	1,101	2,254	2,254	8,106	1,933
Percentage of registered voters voting:										
Last general election	37%	56%	55%	40%	40%	55%	58%	58%	31%	7%
Last city election	18%	17%	16%	15%	4%	4%	9%	9%	31%	7%
<u>Financial Services</u>										
Property Tax Bills	15,428	15,403	15,404	15,354	15,376	15,350	15,435	-	15,351	15,261
Income Tax Returns	25,043	24,378	23,884	23,493	23,141	22,598	21,071	19,963	19,688	18,699
Paper Check Issued to Vendors	3,784	3,405	3,205	3,248	3,347	3,346	3,113	1,486	2,986	3,746
Electronic Payments to Vendors	746	752	828	800	772	763	963	450	884	1,334
<u>Public Safety</u>										
Fire Protection										
Number of firefighter and officer positions	42	41	41	41	41	41	37	37	37	36
Number of emergency calls	3,656	4,116	4,206	4,092	4,171	4,298	4,220	2,062	4,402	4,676
Police Protection										
Number of sworn officer positions	83	83	83	84	84	84	79	79	79	79
Part I (Major) Crimes	2,971	3,360	3,303	3,495	2,997	3,107	3,071	1,305	2,859	2,772
<u>Public Works</u>										
Refuse Collected (Tons per Year)	11,780	11,925	11,074	11,192	10,375	10,401	10,526	6,042	12,703	10,153
Recyclables Collected (Tons per Year)	775	779	588	559	629	626	309	-	-	-
<u>Water & Sewer</u>										
Number of consumers	14,917	14,917	14,455	14,412	14,364	13,131	12,987	12,966	13,037	13,109
Average daily water consumption (GPD)	9,453,000	8,870,000	9,582,000	8,998,000	9,314,000	8,879,000	7,976,000	7,163,000	8,417,000	7,700,000
Water main breaks repaired	19	10	5	13	21	34	17	6	12	5
Sewer flows (Millions Gallons per Year)	1,387	1,475	1,700	2,040	1,945	2,181	1,979	965	1,625	1,695
Sewer Service Calls	624	568	638	605	598	533	508	263	591	522

* 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	2003	2004	2005	2006	2007	2008	2009	2010*	2011	2012
<u>Public Safety</u>										
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
<u>Highways, Streets and Bridges</u>										
Miles of Streets	197.96	196.95	196.95	197.48	197.79	197.79	196.95	196.95	196.95	196.95
Number of streetlights	3,123	3,111	3,159	3,159	3,134	3,134	3,192	3,125	3,065	2,838
<u>Culture and Recreation</u>										
Number of parks (acres)	701	701	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
<u>Sewer</u>										
Sanitary sewers (miles)	175.33	178.02	179.41	175.74	177.04	177.04	177.04	177.04	177.04	177.04
Storm sewers (miles)	178.57	178.61	179.23	180.48	183.25	183.60	184.35	184.35	184.35	184.35
<u>Water</u>										
Water mains (miles)	193.66	194.14	194.14	194.15	195.63	195.58	195.69	195.69	195.69	195.40

* 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***

October 23, 2012

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the year ended June 30, 2012 and have issued our report thereon dated October 23, 2012. 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

Management of the City of Muskegon is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness, as Finding 2012-1.

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City Commission
October 23, 2012
Page 2

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*.

The City of Muskegon's response to the finding 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.

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

October 23, 2012

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 *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 year ended June 30, 2012. 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 the 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 year ended June 30, 2012.

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BRICKLEY DELONG

City Commission
October 23, 2012
Page 2

Internal Control Over Compliance

Management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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.

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.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Muskegon as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 records 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 States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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 year ended June 30, 2012

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2011	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2012	Notes
<i>U.S. Department of Housing and Urban Development</i>							
Direct programs							
Community Development Block Grant	14.218						
B-10-MC-26-0026		\$ 1,086,413	\$ 171,102	\$ 293,025	\$ 121,923	\$ -	
B-11-MC-26-0026		911,340	-	436,474	888,854	452,380	
Program Income		43,538	-	43,538	43,538	-	
Total Community Development Block Grant		2,041,291	171,102	773,037	1,054,315	452,380	4
Home Investment Partnership Program	14.239						
M-10-MC-26-0215		320,710	16,619	98,994	82,375	-	
M-11-MC-26-0216		284,337	-	173,246	192,500	19,254	
Program Income		52,088	-	52,088	52,088	-	
Total Home Investment Partnership Program		657,135	16,619	324,328	326,963	19,254	
Total direct programs		2,698,426	187,721	1,097,365	1,381,278	471,634	
Passed through Michigan State Housing Development Authority							
Community Development Block Grant	14.218						
Neighborhood Stabilization Program							
NSP-2008-0280-ENT		1,450,000	353,938	268,335	-	85,603	
Program Income		-	3,918	273,019	273,019	3,918	
Total Neighborhood Stabilization Program		1,450,000	357,856	541,354	273,019	89,521	4
Total U.S. Department of Housing and Urban Development		4,148,426	545,577	1,638,719	1,654,297	561,155	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—Continued
For the year ended June 30, 2012

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2011	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2012	Notes
<i>U.S. Department of Justice</i>							
Direct programs							
Bulletproof Vest Partnership Grant 2010 Grant	16.607	\$ 1,110	\$ -	\$ -	\$ 1,110	\$ 1,110	
Justice Assistance Grant	16.738						
2010-DJ-BX-0887		72,886	-	26,127	26,127	-	
2011-DJ-BX-2380		55,831	-	34,698	34,698	-	
		<u>128,717</u>	<u>-</u>	<u>60,825</u>	<u>60,825</u>	<u>-</u>	
Total direct programs		129,827	-	60,825	61,935	1,110	
Passed through Ottawa County							
WEMET Multi-Jurisdictional Drug Enforcement CO-OP	16.738						
70834-311B		34,911	6,273	6,273	-	-	
70834-412B		29,923	-	29,923	29,923	-	
		<u>64,834</u>	<u>6,273</u>	<u>36,196</u>	<u>29,923</u>	<u>-</u>	
Passed through Muskegon County							
ARRA - Justice Assistance Grant	16.804						
2009-SB-B9-1824		218,169	14,436	67,929	60,442	6,949	
Total U.S. Department of Justice		<u>412,830</u>	<u>20,709</u>	<u>164,950</u>	<u>152,300</u>	<u>8,059</u>	
TOTAL FEDERAL ASSISTANCE		<u>\$ 4,561,256</u>	<u>\$ 566,286</u>	<u>\$ 1,803,669</u>	<u>\$ 1,806,597</u>	<u>\$ 569,214</u>	

137

The accompanying notes are an integral part of this schedule.

City of Muskegon
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

- See the notes to the financial statements for significant accounting policies used in preparing this schedule.
- 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 year ended June 30, 2012 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements	
General Fund	\$ 152,300
Major Street and Trunkline Fund	1,020,000
Other governmental funds	<u>1,285,652</u>
	2,457,952
Plus program income	368,645
Less MDOT contracted projects as shown below	<u>(1,020,000)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 1,806,597</u>

- The Michigan Department of Transportation (MDOT) requires that cities report all federal and state grants pertaining to their city. During the year ended June 30, 2012 the federal aid received and expended by the City of Muskegon was \$1,020,000 for contracted projects as shown below. Contracted projects are defined as projects performed by private contractors and paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the City of Muskegon administers the grant and either performs the work or contracts it out.

	Federal CFDA number	Revenue Recognized	Federal Expenditures
<i>U.S Department of Transportation, Federal Highway Administration (contracted projects)</i>			
Passed through the Michigan Department of Transportation			
Highway Planning and Construction Program	20.205		
Proj STP 1161(015) Fed Item HH7267 Contract 11-5251		\$ 560,000	\$ 560,000
Proj STP 1161(011) Fed Item HH7221 Contract 11-5164		300,000	300,000
Proj HPSL 1161(023) Fed Item RR 7806 Contract 11-5527		<u>160,000</u>	<u>160,000</u>
Total U.S. Department of Transportation, Federal Highway Administration (contracted projects)		<u>\$ 1,020,000</u>	<u>\$ 1,020,000</u>

- Community Development Block Grant

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
 Year ended June 30, 2012

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? X yes 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? yes X 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? yes X no

4. Identification of major programs:

CFDA Number(s)

Name of Federal Program/Cluster

14.218

U.S. Department of Housing and Urban Development

• **Community Development Block Grant**

14.239

• **Home Investment Partnership Program**

5. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**
6. Auditee qualified as low-risk auditee? yes X no

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2012-1: MATERIAL WEAKNESS—Year-end Procedures Should be Improved to Enhance Year-end Financial Reporting

Criteria: The City’s general ledger should be in agreement with detailed balances and other supporting documentation at year-end.

Condition: Three material audit adjustments were required to correct general ledger balances at year-end.

Context: These were the only three material adjustments noted during the audit of the City for the year ended June 30, 2012

Cause: City personnel did not record all of the adjustments necessary to have the general ledger in agreement with detailed balances and other supporting documentation at year-end.

Effect: The City records required material year-end audit adjustments.

Recommendation: The City should improve its year-end procedures to ensure that its general ledger is properly adjusted.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the finding and continues to work toward improving its year-end review process as it adjusts its procedures to cope with staff reductions/turnover. The City notes that the number of material audit adjustments that arose from the audit was significantly less than in the prior audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were **no** findings in relation to major federal award programs.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 23, 2012

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 June 30, 2011 dated October 21, 2011.

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1: MATERIAL WEAKNESS—Year-end Procedures Should be Improved to

Condition: Several material audit adjustments were required to correct general ledger balances at year-end.

Recommendation: The City should improve its year-end procedures to ensure that its general ledger is properly adjusted.

Current Status: See Finding 2012-1 for similar finding reported during the single audit for the fiscal year ended June 30, 2012.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2011-2: Eligibility Documented Review and Approval Procedures

U.S Department of Housing and Urban Development

CDBG Entitlement Grant Cluster

CFDA: 14.218 and 14.253

Award Number: B-10-MC-26-0026, NSP-2008-0280-ENT

Award Year End: June 30, 2011

Condition: Internal control procedures requiring a documented review and approval of eligibility determination were not performed for the CDBG Entitlement Grant cluster programs.

Recommendation: Documented review and approval procedures should be implemented for the CDBG Entitlement Grant cluster programs eligibility function.

Current Status: Recommendation was implemented during the fiscal year ended June 30, 2012. **No** similar finding was reported during the single audit for the fiscal year ended June 30, 2012.

Sincerely,



Timothy J. Paul
Finance Director

CORRECTIVE ACTION PLAN

October 23, 2012

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, 2012.

Name and address of independent public accounting firm:

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

Audit period: June 30, 2012

The findings from the Schedule of Findings and Responses for the year ended June 30, 2012 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1: MATERIAL WEAKNESS—Year-end Procedures Should be Improved to Enhance Year-end Financial Reporting

Recommendation: The City should improve its year-end procedures to ensure that its general ledger is properly adjusted.

Action Taken: The City continues to make changes to its closing procedures to better ensure that accounts are properly adjusted in future year-end closings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were **no** findings in relation to major federal award programs.

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