

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Fiscal Year Ended June 30, 2011

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2011**

Prepared By

FINANCIAL SERVICES DIVISION

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Finance & Payroll Coordinator**

*Cover Photo: Hot Rod Magazine's seven-day **Hot Rod Power Tour** includes a scheduled stop in Downtown Muskegon. The Power Tour brings thousands of high-end hot rods, street rods, muscle cars and custom trucks to town. (Photo courtesy of Ann Becker)*

City of Muskegon

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Affirmative
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1214

Cemetery
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FAX (231)726-
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City Manager
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1214

Civil Service
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4405

Clerk
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4178

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

Finance
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FAX (231)724-
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Fire Department
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Income Tax
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Inspection
Services
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Leisure Services
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Mayor's Office
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Police
Department
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Public Works
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Treasurer
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October 21, 2011

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, 2011. In November 2009, voters approved City Charter amendments allowing the City Commission to set a fiscal year other than the calendar year that had previously been specified by Charter. The Commission subsequently implemented this authority setting June 30 as the City's new fiscal period end date. This CAFR report covers the first full twelve-month period (July 1, 2010 through June 30, 2011) completed since this change was made.

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

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

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

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



maximum understanding of the City's finances have been included. Brickley DeLong, P.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a 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. 2011 marks the ferry service's eighth successful year of operations.
- Muskegon is home to the annual Miss Michigan pageant.
- Pere Marquette beach is nationally recognized as one of the best beaches in the nation and is the only beach in Michigan to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches.
- Muskegon is home to successful summertime festivals that attract thousands of visitors to the community. These include *Muskegon Summer Celebration* which brings top name musical groups to town for several days of waterfront music celebration and the *Bike Time* festival which attracts motorcycle enthusiasts to the city each July.
- Muskegon is the cultural hub for West Michigan with numerous museums and live performances. The Muskegon Museum of Art has one of the best art collections in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of the Frauenthal Center for the Performing Arts to life throughout the year.
- Muskegon is home to three historic museum ships that attract thousands of visitors each year:
 - *USS Silversides*, a rare surviving World War II submarine maintained in pristine condition;
 - *LST-393*, a landing craft used in the D-day invasion and one of only two such vessels remaining in existence; and the

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

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

COMPONENT UNITS

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

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

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon 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. Local income tax withholdings remitted by these employers provide stability to City finances in times of economic weakness.

Still, Muskegon has been heavily impacted by the current economic recession. Area unemployment remains high and the resultant impact in City income tax revenue has been severe. There are signs, though, that recovery has started. The W.E. Upjohn Institute for Employment Research publishes a regular local economic forecast. Their most recent quarterly forecast (September 2011) gives an independent assessment of the local economy:

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"Total employment in Muskegon County increased by 0.4 percent, which marked the second consecutive quarter of modest growth. Strong gains in the goods-producing sector and an uptick in government employment erased modest losses in the service-providing sector. The job growth helped push the region's unemployment rate down to 10.5 percent from 10.9 percent the previous quarter, although the overall level remained higher than for any other metro area in west Michigan. Unfortunately, the region's limited economic indicators suggest that conditions will not be as rosy over the next few months."

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in fiscal year 2010-11 were the following:

- Muskegon hosted the *Hot Rod Power Tour* an event sponsored by Hot Rod Magazine that brought nearly 6,000 high-end hot rods, street rods, muscle cars and custom trucks to downtown Muskegon in early summer. The event was extremely successful for the community and will return in 2012.
- The Lake House Waterfront Grille re-opened capping a very successful comeback of a major downtown waterfront development that includes the Shoreline Inn Hotel & Conference Center and the Terrace Point Marina. The development had been in foreclosure proceedings.
- Development activity in the City's downtown continued with several additional condominiums in the Heritage Square "live-work" development completed or started. A total of twenty-two units are planned for this downtown development.
- 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.
- Work was completed on a major \$12 million auto dealership expansion encompassing GM, Honda and Hyundai brands. The developer has purchased additional land and plans further expansion. The City assisted in this project with the creation of a Brownfield Redevelopment Authority and securing a low-interest state loan to help finance environmental work.
- Significant improvements were made to the LC Walker Arena including installation of a video scoreboard, complete renovation of locker and training rooms and installation of new lighting and sound systems. These improvements were financed by the private company that operates the Arena under contract with the City.
- Mercy Health Partners undertook several renovation and expansion projects at its two Muskegon hospital campuses including expansion of the acute care facilities.



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, 2011, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$31,498,123.

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

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City has transferred administrative responsibility for defined benefit pensions to the statewide Municipal Employees Retirement System (MERS) of Michigan. This was done to achieve the economies of scale and investment diversification that the \$6 billion MERS program offers. All new employees hired by the City since 2007 are covered by a defined contribution retirement program. As of the most recent actuarial report (December 31, 2010), the City's defined benefit retirement program is 100.5% funded.

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The City also provides post-retirement healthcare benefits for retirees and their dependents. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation prepared regularly and has followed a program of prefunding the obligation in the same manner as its pension obligations. In 2005, the City implemented the requirements of GASB statements 43 and 45 – “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” As of the most recent actuarial report (December 31, 2009), the City’s retiree healthcare program is 55.2% 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 six months ended June 30, 2010. This marked the twenty-fifth 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, reading "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script, reading "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 Six Months Ended
June 30, 2010

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.

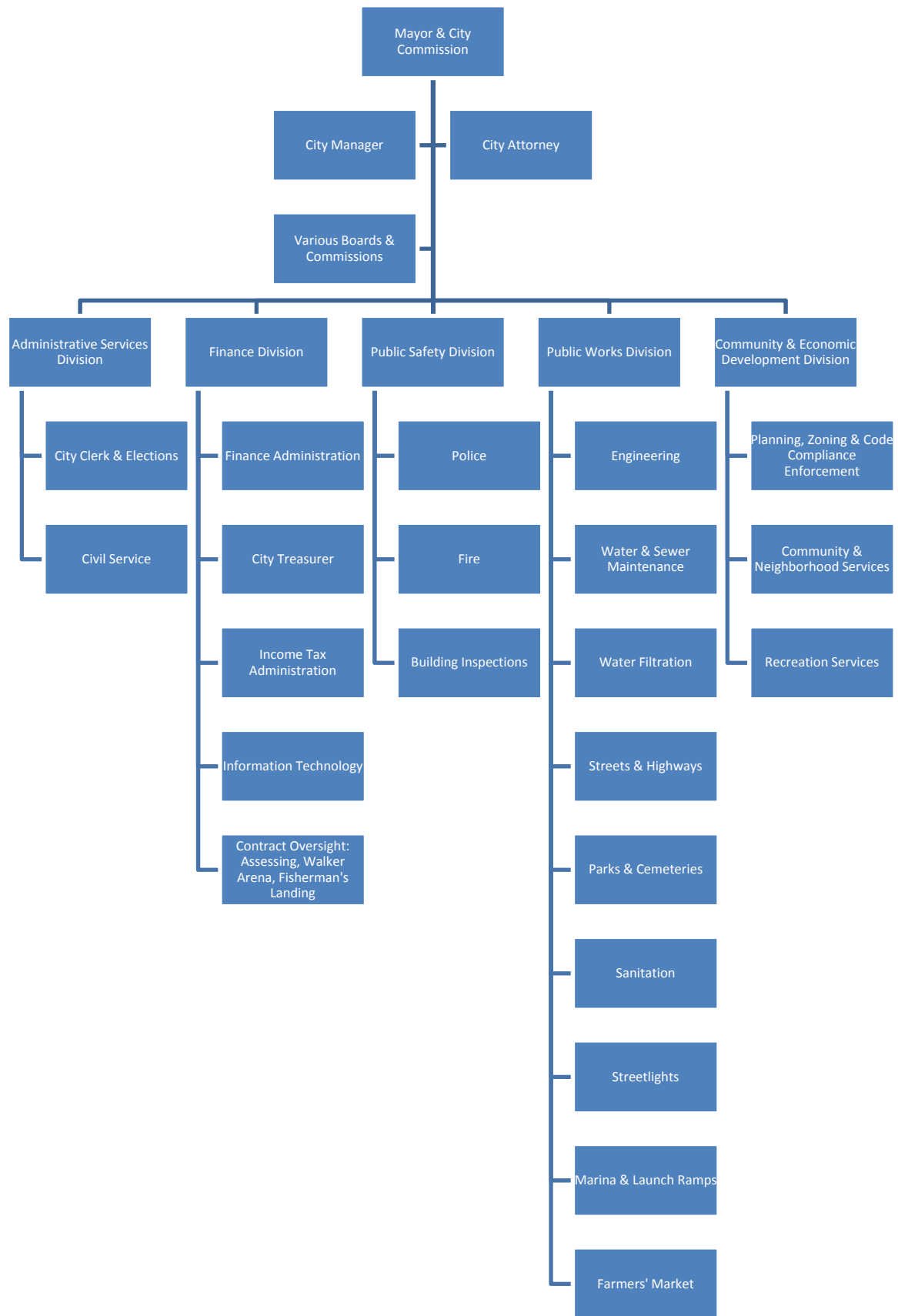


Linda C. Dandson

President

Jeffrey R. Enser

Executive Director



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

June 30, 2011

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Steve Wisneski
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 21, 2011

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, 2011, 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, 2011, 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 XX - XX and XX - XX 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.

City Commission
October 21, 2011
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.

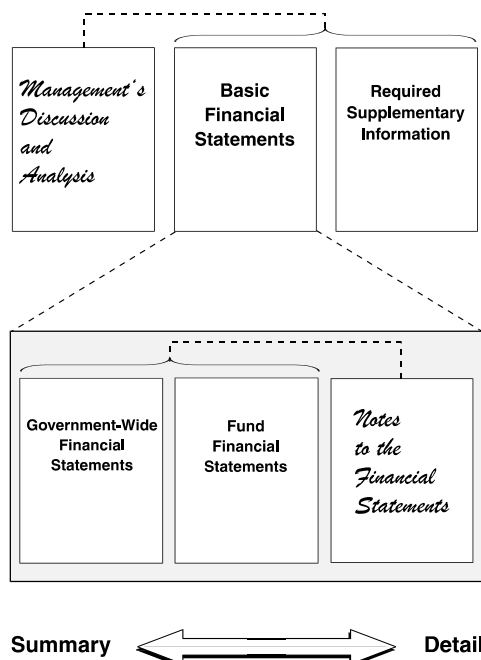
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City completed its first full 12-month fiscal year with a June 30 year-end on June 30, 2011. The City changed from a December 31 fiscal year end in 2010 and the prior financial report was for a six-month transition period ended June 30, 2010.
- The assets of the City of Muskegon exceeded its liabilities by \$134,502,902 as of June 30, 2011. Of the total net assets, \$21,809,807 (16.2%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net assets changed only slightly, increasing by \$397,698 during the year ended June 30, 2011.
- The City's governmental funds reported combined ending fund balance of \$10,926,340, a decrease of \$1,185,458 (9.8%) from the prior year. The decrease is primarily attributable to a \$1.0 million, one-time supplemental contribution made to the City's defined benefit program to keep the program at a 100% actuarial funding level.
- The City's General Fund reported a total fund balance of \$6,011,382, a decrease of \$1,527,072 from the prior year restated balance of \$7,538,454. A series of one-time factors account for the changes in fund balance:
 - Compliance with GASB Statement 54 required elimination of the \$1.5 million Budget Stabilization Fund and recording this amount as part of the City's General Fund. This necessitated restatement of the prior year's fund balance from \$6,038,454 to \$7,538,454;
 - As noted above, \$1.0 million was contributed to the City's defined benefit pension program above and beyond the City's regular annual actuarial required contribution;
 - \$620,000 was used to retire an outstanding economic development loan from the State of Michigan; and,
 - \$334,605 was used to retire an outstanding lease-purchase contract for two City fire trucks.

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 \$134,502,902 as of June 30, 2011. This is a slight increase of \$397,698 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				
	Activities		Activities		Total		Percentage
	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	Change
Current and other assets	\$20,011	\$20,026	\$10,904	\$8,985	\$30,915	\$29,011	6.56%
Capital assets	74,097	75,306	56,942	58,859	131,038	134,165	-2.33%
Total Assets	94,108	95,332	67,846	67,844	161,953	163,177	-0.75%
Long-term liabilities	6,919	8,229	15,423	16,702	22,342	24,931	-10.38%
Other liabilities	2,990	2,406	2,120	1,734	5,110	4,140	23.43%
Total Liabilities	9,909	10,635	17,543	18,436	27,452	29,071	-5.57%
Net Assets							
Invested in capital assets,							
net of related debt	67,945	67,810	40,420	41,106	108,365	108,916	-0.51%
Restricted	3,656	3,059	672	672	4,328	3,731	16.01%
Unrestricted	12,598	13,828	9,211	7,630	21,809	21,458	1.64%
Total Net Assets	\$84,199	\$84,697	\$50,303	\$49,408	\$134,502	\$134,105	0.30%

The bulk of the City's net assets (\$108,364,685 or 81%) represent investments in capital infrastructure assets, less the remaining balance of debt issued to acquire those assets. Infrastructure assets are used to provide public services to citizens and are not available for spending. Another 3.2% (\$4,328,410) of the City's net assets are legally restricted as to use. Remaining net assets (\$21,809,807) are unrestricted and may be used to meet the City's operating needs and ongoing obligations. The City's unrestricted net assets increased slightly (\$351,180) during the year.

Changes in net assets. The City's total revenues were \$45,018,833 for the year ended June 30, 2011. This represents a 71% increase over total revenues collected during the six-month fiscal year ended June 30, 2010 and a 2% increase over total revenues collected during the prior twelve-month reporting period ended December 31, 2009. About 37% of the City's revenue stream came from charges to users of specific services such as water or sewer. Another seventeen percent came from grants from the state and federal governments and thirty-five percent was from local property and income taxes. The remainder was comprised of state revenues and other sources such as franchise fees and investment income.

The total cost of all City programs and services for the year ended June 30, 2011 was \$44,621,135. This represents a 106% increase over total expenses incurred during the six-month fiscal year ended June 30, 2010 and a five percent decrease from reported expenses for the last twelve-month fiscal year ended December 31, 2009. Seventy-four percent of the City's expenses were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-six percent represents the costs of the City's business-type activities, specifically, water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$397,698) represents the decrease in total net assets realized in the fiscal year ended June 30, 2011. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into period-to-period changes in individual revenue and expense categories:

Changes in City's Net Assets							
(In thousands of dollars)							
	Governmental		Business-Type		Total		Percentage
	Activities		Activities				
	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	Change
Program revenues							
Charges for services	\$4,418	\$1,964	\$12,302	\$6,490	\$16,720	\$8,454	97.78%
Operating grants and contributions	5,425	3,132	-	-	5,425	3,132	73.21%
Capital grants and contributions	2,257	255	20	-	2,277	255	792.94%
General revenues							
Property taxes	8,844	8,681	-	-	8,844	8,681	1.88%
Income taxes	6,867	3,505	-	-	6,867	3,505	95.92%
State shared revenues	3,847	1,832	-	-	3,847	1,832	109.99%
All other	1,014	400	24	17	1,038	417	148.92%
Total revenues	32,672	19,769	12,346	6,507	45,018	26,276	71.33%
Governmental activities expenses							
Public representation	854	445	-	-	854	445	91.91%
Administrative services	646	318	-	-	646	318	103.14%
Financial services	2,373	1,210	-	-	2,373	1,210	96.12%
Public safety	13,391	6,333	-	-	13,391	6,333	111.45%
Public works	3,471	1,641	-	-	3,471	1,641	111.52%
Highways, streets and bridges	7,013	3,680	-	-	7,013	3,680	90.57%
Community and economic development	2,831	1,275	-	-	2,831	1,275	122.04%
Culture and recreation	1,524	760	-	-	1,524	760	100.53%
General administration	794	210	-	-	794	210	278.10%
Interest on long-term debt	273	139	-	-	273	139	96.40%
Business-type activities expenses							
Water	-	-	5,869	2,959	5,869	2,959	98.34%
Sewer	-	-	5,289	2,525	5,289	2,525	109.47%
Marina and Launch Ramp	-	-	293	150	293	150	95.33%
Total expenses	33,170	16,011	11,451	5,634	44,621	21,645	106.15%
Change in net assets before transfers	(498)	3,758	895	873	397	4,631	-91.43%
Transfers	-	(3)	-	3	-	-	-
Change in net assets	(498)	3,755	895	876	397	4,631	-91.43%
Net assets at beginning of year	84,697	80,942	49,408	48,532	134,105	129,474	3.58%
Net assets at end of year	\$84,199	\$84,697	\$50,303	\$49,408	\$134,502	\$134,105	0.30%

* Six-month fiscal period

Net assets for governmental activities decreased \$497,505 while net assets for business-type activities increased by \$895,203.

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, 2011 was \$33,170,383.
- The net cost that City taxpayers paid for these activities through local property taxes and income taxes was \$15,710,971, or 47% 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		
	6/30/2011	6/30/2010*	% Change	6/30/2011	6/30/2010*	% Change
Governmental activities						
Public safety	\$13,391	\$6,333	111.45%	\$12,046	\$5,666	112.60%
Community and economic development	2,831	1,275	122.04%	106	(482)	-121.99%
Culture and recreation	1,524	760	100.53%	1,147	611	87.73%
Highways, streets and bridges	7,013	3,680	90.57%	1,770	1,919	-7.76%
Public works	3,471	1,641	111.52%	2,817	1,416	98.94%
All other	4,940	2,322	112.75%	3,184	1,529	108.24%
Total governmental activities	\$33,170	\$16,010	107.18%	\$21,070	\$10,659	97.67%

* Six-month fiscal period

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For the fiscal year ended June 30, 2011, the City's total business-type activities realized an overall increase in net assets of \$895,203.

Sewer Fund net assets increased \$1,400,447 primarily as result of lower and more stable wholesale sewage treatment costs paid to Muskegon County. The Water Fund saw net assets fall \$330,504. This falloff is attributable to reduced consumption levels. Marina and Launch Ramp Fund net assets decreased \$96,735 due to lower operating revenues resulting from the ongoing economic downturn.

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, 2011 were the General Fund and the Major Street and Trunkline Fund.

General Fund Highlights

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

Year Ended	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target=10%)
6/30/2011	\$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%
12/31/2007	2,920,632	8.57%	24,498,778	11.92%

** Six-month fiscal period*

The City changed its fiscal year transitioning with a six-month fiscal period ended June 30, 2010. This change resulted in a significant one-time increase to the General Fund fund balance due to the fact that annual property taxes are collected in full during this period.

General Fund revenues for the year ended June 30, 2011 were \$205,365 higher than the final amended budget estimate. The positive revenue variance is mostly due to higher than expected state shared revenues.

General Fund expenditures were \$406,489 less than projected in the amended budget. Almost all city departments spent less than expected due to a combination of 1) tight budget controls, 2) conservative budget projections and, 3) cost savings realized from budget cuts made in the prior year.

Major Street and Trunkline Fund Highlights

The Major Street and Trunkline Fund accounts for all of the City's street construction and maintenance activities on its primary road system. Primary funding comes from the State of Michigan. For the year ended June 30, 2011, the fund balance of the Major Street and Trunkline Fund increased \$206,844.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the City and its component units had invested \$133,927,508 in a variety of capital assets, including land, streets, equipment, buildings, water and sewer lines, and vehicles. This is a decrease of \$3,298,490 from capital assets reported as of June 30, 2010. 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, 2011, the City had \$24,019,442 in bonds and other long-term obligations outstanding. This represents a ten percent decrease from the prior year. In addition to making all regularly scheduled debt service payments, the City fully retired a \$334,605 installment lease purchase contract and \$620,000 state economic development loan during the year.

Bond Ratings

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

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

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

	Governmental		Business-Type				
	Activities		Activities		Total		Percentage
	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	6/30/2011	6/30/2010*	Change
Due within one year	\$421	\$527	\$1,256	\$1,223	\$1,677	\$1,750	-4.17%
Due in more than one year	<u>6,919</u>	<u>8,230</u>	<u>15,423</u>	<u>16,702</u>	<u>22,342</u>	<u>24,932</u>	-10.39%
Total bonds & other obligations	\$7,340	\$8,757	\$16,679	\$17,925	\$24,019	\$26,682	-9.98%

* Six-month fiscal period

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$7,478,681 at year-end as shown in the table below. This represents a decrease of 3.2% from the prior year. On March 22, 2011, \$2,005,000 of outstanding Downtown Development Authority bonds were refunded with new bonds issued at lower interest rates. The net present value savings from the refunding are \$72,474 or 3.6% of the refunded principal amount.

Debt issued by component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health.

Additional information concerning component units' long-term debt is presented in Note H to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations (In thousands of dollars)							
	Downtown Development Finance Authority		Local Development Finance Authority		Total		Percentage
	<u>6/30/2011</u>	<u>6/30/2010*</u>	<u>6/30/2011</u>	<u>6/30/2010*</u>	<u>6/30/2011</u>	<u>6/30/2010*</u>	<u>Change</u>
Due within one year	\$265	\$240	\$80	\$80	\$345	\$320	7.81%
Due in more than one year	<u>2,813</u>	<u>3,005</u>	<u>4,321</u>	<u>4,400</u>	<u>7,134</u>	<u>7,405</u>	<u>-3.66%</u>
Total bonds & other obligations	\$3,078	\$3,245	\$4,401	\$4,480	\$7,479	\$7,725	-3.18%

* Six-month fiscal period

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2011-12 capital budget anticipates spending \$6,925,400 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 2011-12 budget will entail further program and position cuts to better balance the City's operating expenses with recurring revenue streams:

- Several firefighter positions will be vacated through retirements during the year. The City will fill these positions with part-time firefighters under an innovative agreement with the firefighters' union.
- Other service cuts including elimination of lifeguards at Pere Marquette Beach, removal of some mid-block streetlights and reductions in the use of seasonal workers in parks and cemeteries are also scheduled.

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

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The income tax rate is 1%

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

Income tax revenues increased from \$3,368,057 in the six-month period ended June 30, 2010 to \$6,599,753 for the year ended June 30, 2011. The 2011 fiscal year collections represent a 1.8% increase over the \$6,482,200 collected during the most recent 12-month fiscal period ended December 31, 2009. For 2011-12, the City has conservatively estimated income tax revenue to be \$6,500,000.

Year	City Income Tax Revenues	Percent Change
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%
12/31/2007	7,618,461	2.6%

** 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 2011-12, the City tax levy is 9.5 mills for general operations and 2.5 mills for sanitation service. We project that \$7,968,182 in property tax revenue will be collected during fiscal year 2011-12.

It should be noted that several significant property tax appeals are pending. The impact of these appeals on City finances is being monitored closely. At June 30, 2011 the City has recorded a \$500,000 estimated liability for potential refunds resulting from these tax appeals.

State Shared Revenues

State shared sales tax revenues represent about sixteen percent of total General Fund revenue. The City's state shared revenue allocation is made up of two parts. The

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

Year	State Shared Revenues	Percent Change
6/30/2011	\$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%
12/31/2007	4,475,462	-0.8%

** Six-month fiscal period*

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

For the 2011-12 fiscal year, the City has projected \$3,050,000 in state shared revenues. Recent information from the state indicate that this estimate may be able to be increased 10-15%.

Street Funds

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

Year	Street Revenues from State	Percent Change
6/30/2011	\$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%
12/31/2007	3,288,098	-0.3%

** Six-month fiscal period*

For 2011-12, 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 \$12,107,611 during the year ended June 30, 2011. 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 2011-12.

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 Muskogee
STATEMENT OF NET ASSETS (DEFICITS)
June 30, 2011

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 13,652,992	\$ 6,477,240	\$ 20,130,232	\$ 375,287
Receivables	2,507,312	1,926,340	4,433,652	-
Due from other governmental units	2,030,496	59,604	2,090,100	-
Internal balances	(1,426,687)	1,426,687	-	-
Inventories	29,836	129,887	159,723	-
Prepaid items	1,008,067	103,860	1,111,927	-
Total current assets	17,802,016	10,123,618	27,925,634	375,287
NONCURRENT ASSETS				
Restricted assets	-	672,000	672,000	-
Capital assets, net				
Nondepreciable	20,317,545	1,651,982	21,969,527	400,000
Depreciable	53,779,017	55,289,954	109,068,971	2,489,010
Bond issuance costs, net	113,520	108,619	222,139	140,139
Special assessments receivable	743,750	-	743,750	-
Net pension asset	1,000,000	-	1,000,000	-
Notes receivable	352,763	-	352,763	-
Total noncurrent assets	76,306,595	57,722,555	134,029,150	3,029,149
Total assets	94,108,611	67,846,173	161,954,784	3,404,436
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,844,129	383,208	2,227,337	37,700
Due to other governmental units	65,888	480,266	546,154	-
Unearned revenue	658,949	-	658,949	-
Bonds and other obligations, due within one year	421,000	1,256,000	1,677,000	345,000
Total current liabilities	2,989,966	2,119,474	5,109,440	382,700
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	6,919,081	15,423,361	22,342,442	7,133,681
Total liabilities	9,909,047	17,542,835	27,451,882	7,516,381
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	67,944,957	40,419,728	108,364,685	(1,511,657)
Restricted for:				
Streets and highways	2,145,116	-	2,145,116	-
Debt service	-	672,000	672,000	-
Law enforcement	140,828	-	140,828	-
Perpetual care				
Expendable	19,063	-	19,063	-
Non-expendable	1,346,284	-	1,346,284	-
Other purposes	5,119	-	5,119	-
Unrestricted	12,598,197	9,211,610	21,809,807	(2,600,288)
Total net assets (deficits)	\$ 84,199,564	\$ 50,303,338	\$ 134,502,902	\$ (4,111,945)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

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
Primary government						
Governmental activities						
Public representation services	\$ 854,249	\$ 196,886	\$ -	\$ -	\$ (657,363)	\$ -
Administrative services	645,585	263,473	12,005	-	(370,107)	-
Financial services	2,373,141	879,905	75,000	-	(1,418,236)	-
Public safety	13,390,888	1,109,659	235,300	-	(12,045,929)	-
Public works	3,471,051	642,082	-	12,199	(2,816,770)	-
Highways, streets and bridges	7,013,216	451,473	3,104,865	1,686,944	(1,769,934)	-
Community and economic development	2,830,867	457,952	1,985,540	493,520	106,145	-
Culture and recreation	1,524,331	300,367	12,455	64,500	(1,147,009)	-
General administration	794,115	116,690	-	-	(677,425)	-
Interest on long-term debt	272,940	-	-	-	(272,940)	-
Total governmental activities	33,170,383	4,418,487	5,425,165	2,257,163	(21,069,568)	-
Business-type activities						
Sewer	5,288,622	6,652,851	-	-	-	1,364,229
Water	5,869,241	5,454,760	-	20,074	-	(394,407)
Marina and Launch Ramp	292,889	194,311	-	-	-	(98,578)
Total business-type activities	11,450,752	12,301,922	-	20,074	-	871,244
Total primary government	\$ 44,621,135	\$ 16,720,409	\$ 5,425,165	\$ 2,277,237	(21,069,568)	(20,198,324)
Component units						
Local Development Finance Authority III	\$ 374,163	\$ -	\$ -	\$ 175,000	-	(199,163)
Downtown Development Authority	119,555	-	-	-	-	(119,555)
Tax Increment Finance Authority	75,000	-	-	-	-	(75,000)
Brownfield Redevelopment Authority	-	-	-	-	-	-
Total component units	\$ 568,718	\$ -	\$ -	\$ 175,000	-	(393,718)
General revenues						
Property taxes					8,844,004	494,334
Income taxes					6,866,967	-
Cable franchises					362,103	-
Grants and contributions not restricted to specific programs					3,846,859	-
Unrestricted investment earnings					193,435	2,094
Miscellaneous					432,880	-
Gain on sale of capital asset					25,815	-
Total general revenues					20,572,063	496,428
Change in net assets					(497,505)	102,710
Net assets (deficit) at July 1, 2010					84,697,069	134,105,204
Net assets (deficit) at June 30, 2011					\$ 84,199,564	\$ 134,502,902
					\$ 50,303,338	\$ (4,111,945)

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
June 30, 2011

	ASSETS			
	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 4,339,329	\$ 586,839	\$ 4,158,343	\$ 9,084,511
Receivables				
Accounts and loans	235,655	1,374	737,951	974,980
Property taxes	79,413	-	-	79,413
Income taxes	735,302	-	-	735,302
Special assessments	-	541,538	509,211	1,050,749
Due from other governmental units	872,880	449,182	708,434	2,030,496
Due from other funds	987,326	-	-	987,326
Prepaid items	241,173	13,162	5,410	259,745
Total assets	\$ 7,491,078	\$ 1,592,095	\$ 6,119,349	\$ 15,202,522
	LIABILITIES AND FUND BALANCES			
Liabilities				
Accounts payable	\$ 871,802	\$ 41,539	\$ 53,137	\$ 966,478
Accrued liabilities	521,469	13,340	22,002	556,811
Due to other governmental units	10,804	55,084	-	65,888
Due to other funds	-	-	893,906	893,906
Deferred revenue	75,621	916,131	801,347	1,793,099
Total liabilities	1,479,696	1,026,094	1,770,392	4,276,182
Fund balances				
Nonspendable:				
Prepaid items	241,173	13,162	5,410	259,745
Long-term loans receivable	-	-	349,400	349,400
Perpetual care	10,000	-	1,336,284	1,346,284
Restricted for:				
Streets and highways	-	552,839	657,930	1,210,769
Law enforcement		-	140,828	140,828
Perpetual care		-	19,063	19,063
Other purposes	-	-	5,119	5,119
Assigned for:				
Capital projects and public improvements	1,500,000	-	2,073,027	3,573,027
Fiscal year 2012 budget	885,728	-	-	885,728
Unassigned	3,374,481	-	(238,104)	3,136,377
Total fund balances	6,011,382	566,001	4,348,957	10,926,340
Total liabilities and fund balances	\$ 7,491,078	\$ 1,592,095	\$ 6,119,349	\$ 15,202,522

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, 2011

Total fund balance—governmental funds		\$ 10,926,340
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	\$ 127,576,545	
Accumulated depreciation	<u>(55,147,933)</u>	72,428,612
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	160,106	
Accumulated amortization	<u>(46,586)</u>	113,520
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.		1,000,000
Other receivables in governmental activities are not reported in the governmental funds.		675,621
Accrued interest in governmental activities is not reported in the governmental funds.		(56,700)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		1,048,529
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	(6,151,605)	
Compensated absences	<u>(1,093,700)</u>	(7,245,305)
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.		
Net assets of governmental activities in the Statement of Net Assets		<u>5,308,947</u>
		<u>\$ 84,199,564</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2011

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
REVENUES				
Taxes	\$ 15,146,430	\$ -	\$ -	\$ 15,146,430
Licenses and permits	1,179,639	-	-	1,179,639
Intergovernmental revenues				
Federal	192,842	1,457,137	2,143,552	3,793,531
State	3,889,317	2,704,187	1,061,214	7,654,718
Local	75,000	-	2,500	77,500
Charges for services	2,365,018	64,370	339,816	2,769,204
Fines and forfeitures	432,874	-	14,380	447,254
Interest and rental income	315,019	36,626	60,853	412,498
Other	431,190	523,552	467,159	1,421,901
Total revenues	24,027,329	4,785,872	4,089,474	32,902,675
EXPENDITURES				
Current				
Public representation services	851,918	-	-	851,918
Administrative services	492,331	-	-	492,331
Financial services	2,352,709	-	-	2,352,709
Public safety	13,079,620	-	8,356	13,087,976
Public works	3,079,342	-	-	3,079,342
Highways, streets and bridges	-	4,179,028	1,523,013	5,702,041
Community and economic development	845,394	-	-	845,394
Culture and recreation	1,178,782	-	18,238	1,197,020
Other governmental functions	1,775,128	-	-	1,775,128
Debt service				
Principal	1,024,605	-	320,578	1,345,183
Interest and fees	228,190	-	39,068	267,258
Capital outlay	-	-	3,183,905	3,183,905
Total expenditures	24,908,019	4,179,028	5,093,158	34,180,205
Excess of revenues over (under) expenditures	(880,690)	606,844	(1,003,684)	(1,277,530)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	120,118	120,118
Transfers in	2,357	-	1,346,337	1,348,694
Transfers out	(648,739)	(400,000)	(328,001)	(1,376,740)
Total other financing sources (uses)	(646,382)	(400,000)	1,138,454	92,072
Net change in fund balances	(1,527,072)	206,844	134,770	(1,185,458)
Fund balances at July 1, 2010, as restated	7,538,454	359,157	4,214,187	12,111,798
Fund balances at June 30, 2011	\$ 6,011,382	\$ 566,001	\$ 4,348,957	\$ 10,926,340

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, 2011

Net change in fund balances—total governmental funds		\$ (1,185,458)
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	\$ (4,375,774)	
Capital outlay	<u>3,301,273</u>	(1,074,501)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		104,321
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.		1,344,231
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.		2,900
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.		
Increase in net pension asset	1,000,000	
Decrease in compensated absences	<u>65,926</u>	1,065,926
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.		(344,175)
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>(410,749)</u>
		<u>\$ (497,505)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2011

ASSETS					Governmental Activities - Internal Service Funds
Business-type Activities - Enterprise Funds					
Sewer	Water	Ramp	Total		
CURRENT ASSETS					
Cash and investments	\$ 3,320,219	\$ 2,913,169	\$ 243,852	\$ 6,477,240	
Receivables					
Accounts receivable	1,011,405	910,827	4,108	1,926,340	
Due from other governmental units	-	57,812	1,792	59,604	
Inventories	32,386	97,501	-	129,887	
Prepaid items	42,733	58,510	2,617	103,860	
Total current assets	4,406,743	4,037,819	252,369	8,696,931	
NONCURRENT ASSETS					
Restricted assets	-	672,000	-	672,000	
Capital assets					
Land	16,188	103,500	22,562	142,250	
Land improvements	-	-	1,888,965	1,888,965	
Buildings, improvements and systems	20,282,596	63,802,215	2,322,488	86,407,299	
Machinery and equipment	39,722	2,788,156	-	2,827,878	
Construction in progress	310,669	1,199,063	-	1,509,732	
Less accumulated depreciation	(7,568,514)	(25,918,783)	(2,346,891)	(35,834,188)	
Net capital assets	13,080,661	41,974,151	1,887,124	56,941,936	
Bond issuance costs, net	-	108,619	-	108,619	
Total noncurrent assets	13,080,661	42,754,770	1,887,124	57,722,555	
Total assets	17,487,404	46,792,589	2,139,493	66,419,486	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	44,440	166,092	14,861	225,393	
Accrued liabilities	15,764	142,005	46	157,815	
Due to other governmental units	380,870	99,396	-	480,266	
Due to other funds	-	-	-	-	
Bonds and other obligations, due within one year	9,000	1,247,000	-	1,256,000	
Total current liabilities	450,074	1,654,493	14,907	2,119,474	
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	46,718	15,376,050	593	15,423,361	
Total liabilities	496,792	17,030,543	15,500	17,542,835	
NET ASSETS					
Invested in capital assets, net of related debt	13,080,661	25,451,943	1,887,124	40,419,728	
Restricted for debt service	-	672,000	-	672,000	
Unrestricted	3,909,951	3,638,103	236,869	7,784,923	
Total net assets	\$ 16,990,612	\$ 29,762,046	\$ 2,123,993	48,876,651	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					
				1,426,687	
Net assets of business-type activities				\$ 50,303,338	

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, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Ramp	Total
OPERATING REVENUES				
Charges for services	\$ 6,499,376	\$ 5,221,839	\$ 184,394	\$ 11,905,609
Other	153,475	232,921	9,917	396,313
Total operating revenues	6,652,851	5,454,760	194,311	12,301,922
OPERATING EXPENSES				
Administration	334,890	541,950	17,376	894,216
Insurance premiums and claims	-	-	-	-
Wastewater treatment	4,520,630	-	-	4,520,630
Filtration plant operations	-	1,367,569	-	1,367,569
Water distribution	-	1,385,011	-	1,385,011
Other operations	-	-	160,584	160,584
Depreciation and amortization	406,706	2,119,038	114,198	2,639,942
Total operating expenses	5,262,226	5,413,568	292,158	10,967,952
Operating income (loss)	1,390,625	41,192	(97,847)	1,333,970
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	9,822	13,025	1,112	23,959
Gain on sale of capital assets	-	-	-	-
Interest expense	-	(404,795)	-	(404,795)
Total nonoperating revenue (expenses)	9,822	(391,770)	1,112	(380,836)
Income (loss) before contributions and transfers	1,400,447	(350,578)	(96,735)	953,134
Capital contributions	-	20,074	-	20,074
Transfers in	-	-	-	-
Change in net assets	1,400,447	(330,504)	(96,735)	973,208
Net assets at July 1, 2010	15,590,165	30,092,550	2,220,728	7,224,388
Net assets at June 30, 2011	\$ 16,990,612	\$ 29,762,046	\$ 2,123,993	\$ 6,735,634
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(78,005)
Change in net assets of business-type activities				\$ 895,203

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, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 6,711,360	\$ 5,482,175	\$ 197,769	\$ 12,391,304	\$ 495,597
Receipts from interfund services provided	19,954	79,369	-	99,323	7,162,116
Payments to suppliers	(3,848,244)	(1,313,652)	(116,535)	(5,278,431)	(5,125,868)
Payments to employees	(390,071)	(1,169,562)	(47,163)	(1,606,796)	(1,739,210)
Payments for interfund services used	(483,516)	(595,652)	(10,706)	(1,089,874)	(684,827)
Net cash provided by operating activities	2,009,483	2,482,678	23,365	4,515,526	107,808
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	-	-	28,046
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	-	20,074	-	20,074	-
Purchases of capital assets	(284,965)	(412,408)	-	(697,373)	(395,734)
Principal paid on capital debt	-	(1,195,000)	-	(1,195,000)	-
Interest paid on capital debt	-	(451,323)	-	(451,323)	-
Proceeds from sale of capital assets	-	-	-	-	24,055
Net cash used for capital and related financing activities	(284,965)	(2,038,657)	-	(2,323,622)	(371,679)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	9,822	13,025	1,112	23,959	22,093
Net increase (decrease) in cash and investments	1,734,340	457,046	24,477	2,215,863	(213,732)
Cash and investments July 1, 2010	1,585,879	3,128,123	219,375	4,933,377	4,782,215
Cash and investments at June 30, 2011	\$ 3,320,219	\$ 3,585,169	\$ 243,852	\$ 7,149,240	\$ 4,568,483
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 3,320,219	\$ 2,913,169	\$ 243,852	\$ 6,477,240	\$ 4,568,483
Restricted cash and investments	-	672,000	-	672,000	-
	\$ 3,320,219	\$ 3,585,169	\$ 243,852	\$ 7,149,240	\$ 4,568,483
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 1,390,625	\$ 41,192	\$ (97,847)	\$ 1,333,970	\$ (559,892)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization expense	406,706	2,119,038	114,198	2,639,942	534,711
Bad debt expense	41,609	27,999	-	69,608	-
Change in assets and liabilities					
Receivables, net	36,854	78,785	3,458	119,097	280,405
Inventories	(1,153)	(53)	-	(1,206)	(1,125)
Prepaid items	655	5,489	(125)	6,019	18,706
Accounts payable	121,326	183,725	5,068	310,119	(192,855)
Accrued liabilities	12,861	26,503	(1,387)	37,977	33,330
Due to other funds	-	-	-	-	(5,472)
Net cash provided by operating activities	\$ 2,009,483	\$ 2,482,678	\$ 23,365	\$ 4,515,526	\$ 107,808

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Fiduciary Funds
 June 30, 2011

	Agency Funds
ASSETS	
Cash and investments	\$ 742,906
Accounts receivable	1,867
Total assets	\$ 744,773
LIABILITIES	
Accounts payable	\$ 213,981
Due to other governmental units	462,345
Deposits held for others	68,447
Total liabilities	\$ 744,773

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2011

ASSETS						
	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total	
CURRENT ASSETS						
Cash and investments	\$ 21,348	\$ 272,145	\$ 16,445	\$ 65,349	\$ 375,287	
NONCURRENT ASSETS						
Capital assets, net						
Nondepreciable	400,000	-	-	-	-	400,000
Depreciable	2,489,010	-	-	-	-	2,489,010
Net capital assets	2,889,010	-	-	-	-	2,889,010
Bond issuance costs, net	89,500	50,639	-	-	-	140,139
Total noncurrent assets	2,978,510	50,639	-	-	-	3,029,149
Total assets	2,999,858	322,784	16,445	65,349	-	3,404,436
LIABILITIES AND NET ASSETS (DEFICITS)						
CURRENT LIABILITIES						
Accrued liabilities	32,300	5,400	-	-	-	37,700
Bonds and other obligations, due within one year	80,000	265,000	-	-	-	345,000
Total current liabilities	112,300	270,400	-	-	-	382,700
NONCURRENT LIABILITIES						
Bonds and other obligations, less amounts due within one year	4,320,667	2,813,014	-	-	-	7,133,681
Total liabilities	4,432,967	3,083,414	-	-	-	7,516,381
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt	(1,511,657)	-	-	-	-	(1,511,657)
Unrestricted	78,548	(2,760,630)	16,445	65,349	-	(2,600,288)
Total net assets (deficits)	\$ (1,433,109)	\$ (2,760,630)	\$ 16,445	\$ 65,349	\$	\$ (4,111,945)

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, 2011

	Program Revenue	Net (Expense) Revenue and Changes in Net Assets				
		Capital grants and contributions	Local Development Finance Authority III	Downtown Development Authority	Increment Finance Authority	Brownfield Redevelopment Authority
<i>Functions/Programs</i>	Expenses					Total
Local Development Finance Authority III						
Economic development	\$ 178,821	\$ -	\$ (178,821)	\$ -	\$ -	\$ (178,821)
Interest on long-term debt	195,342	175,000	(20,342)	-	-	(20,342)
Total Local Development Finance Authority III	374,163	175,000	(199,163)	-	-	(199,163)
Downtown Development Authority						
Interest on long-term debt	119,555	-	-	(119,555)	-	(119,555)
Tax Increment Finance Authority						
Economic development	75,000	-	-	-	(75,000)	(75,000)
Brownfield Redevelopment Authority						
Economic development	-	-	-	-	-	-
Total discretely presented component units	<u>\$ 568,718</u>	<u>\$ 175,000</u>	(199,163)	(119,555)	(75,000)	(393,718)
General revenues						
Property taxes			84,658	281,424	53,769	74,483
Unrestricted investment income			153	1,716	142	83
Total general revenues			84,811	283,140	53,911	74,566
Change in net assets			(114,352)	163,585	(21,089)	74,566
Net assets (deficit) at July 1, 2010			(1,318,757)	(2,924,215)	37,534	(9,217)
Net assets (deficit) at June 30, 2011			<u>\$ (1,433,109)</u>	<u>\$ (2,760,630)</u>	<u>\$ 16,445</u>	<u>\$ 65,349</u>
						<u>\$ (4,111,945)</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

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, 2011, 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, 2010, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,608,614
Total liabilities	(259,484)
Total net assets	<u><u>\$ 5,349,130</u></u>
Total operating income	\$ 1,736,893
Total operating expenses	(1,996,901)
Total nonoperating revenues	44,464
Capital contributions	99,359
Change in net assets	<u><u>\$ (116,185)</u></u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

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, 2011

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, 2011

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

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

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

Receivables and Payables

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

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

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

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

The 2010 state taxable value for real/personal property of the City totaled approximately \$702,096,000 of which approximately \$7,494,000 was captured by the component units. The ad valorem taxes levied consisted of 9.5, 2.5, and .068 mills for the City's general operating, sanitation, and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA, DDA, and BRA component units.

Inventories and Prepaid Items

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

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

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, 2011

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 2010 financial statements have been reclassified to conform to the 2011 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, 2011

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended June 30, 2011, actual expenditures exceeded appropriations for:

	<u>Amended budget</u>	<u>Actual</u>
General Fund		
Financial services		
Arena administration	\$ 176,855	\$ 242,923
City treasurer	463,707	492,185
Public safety		
Fire department	3,667,567	3,711,381
Public works		
Street lighting	750,000	784,399
Community and economic development		
Environmental services	374,422	411,784
Other governmental functions		
Other	250,000	515,221
Transfers out	408,046	648,739

These over-expenditures were funded with available fund balance.

Fund Deficits

As of June 30, 2011, the Engineering Services Fund had an unrestricted fund deficit of \$35,132, the HOME Fund had an unassigned fund deficit of \$166,174, and the State Grants Fund had an unassigned fund deficit of \$71,930. The deficits will be eliminated through future operations.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2011, the City had the following investments:

	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
Investment Type				
Money market funds	\$ 1,970,653	1.4	AAA	13.7%
US Agency obligations	4,465,116	166	AA+	30.9%
CDARs	<u>8,002,533</u>	2	not rated	<u>55.4%</u>
Total fair value	<u>\$ 14,438,302</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>52.9</u>		

Interest rate risk. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10% of the City's total portfolio must be in instruments maturing in 30 days.

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

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers' acceptances and time certificates of deposit to 25% each of the total portfolio. More than 5 percent of the City's investments are in U.S. Agency obligations issued by the Federal National Mortgage Association which are 27.49 percent of the City's investments.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2011, \$7,146,916 of the City's bank balance of \$7,653,918 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, 2011, 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, 2011 was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental activities:				
Capital assets, no being depreciated:				
Land	\$ 12,424,174	\$ -	\$ -	\$ 12,424,174
Construction in progress	6,704,543	2,931,696	1,742,868	7,893,371
Total capital assets, not being depreciated	19,128,717	2,931,696	1,742,868	20,317,545
Capital assets, being depreciated:				
Land improvements	4,118,319	69,224	-	4,187,543
Leasehold improvements	343,614	129,500	-	473,114
Buildings and improvements	21,092,159	240,077	-	21,332,236
Furniture, vehicle and equipment	11,902,751	326,510	162,776	12,066,485
Infrastructure	70,881,213	1,742,868	-	72,624,081
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	113,914,957	2,508,179	162,776	116,260,360

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental activities— Continued				
Less accumulated depreciation:				
Land improvements	\$ 725,961	\$ 140,712	\$ -	\$ 866,673
Leasehold improvements	151,992	43,749	-	195,741
Buildings and improvements	13,565,955	451,099	-	14,017,054
Furniture, vehicle and equipment	9,347,411	622,145	159,720	9,809,836
Infrastructure	31,889,494	3,366,305	-	35,255,799
Shared improvements	2,057,395	278,845	-	2,336,240
Total accumulated depreciation	57,738,208	4,902,855	159,720	62,481,343
Total capital assets, being depreciated, net	56,176,749	(2,394,676)	3,056	53,779,017
Capital assets, net	\$ 75,305,466	\$ 537,020	\$ 1,745,924	\$ 74,096,562
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	2,325,794	668,867	1,484,929	1,509,732
Total capital assets, not being depreciated	2,468,044	668,867	1,484,929	1,651,982
Capital assets, being depreciated:				
Land improvements	1,888,965	-	-	1,888,965
Buildings and improvements	84,893,864	1,513,435	-	86,407,299
Machinery and equipment	2,827,878	-	-	2,827,878
Total capital assets, being depreciated	89,610,707	1,513,435	-	91,124,142
Less accumulated depreciation:				
Land improvements	1,676,040	21,225	-	1,697,265
Buildings and improvements	30,412,852	2,273,532	-	32,686,384
Machinery and equipment	1,130,985	319,554	-	1,450,539
Total accumulated depreciation	33,219,877	2,614,311	-	35,834,188
Total capital assets, being depreciated, net	56,390,830	(1,100,876)	-	55,289,954
Capital assets, net	\$ 58,858,874	\$ (432,009)	\$ 1,484,929	\$ 56,941,936

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 52,454
Public safety	144,743
Public works	75,449
Highways, streets and bridges	3,726,050
Community and economic development	75,717
Culture and recreation	274,744
General administration	18,987
Internal Service Fund depreciation	534,711
	<u>\$ 4,902,855</u>

Business-type activities:

Water	\$ 2,093,407
Sewer	406,706
Marina and Launch Ramp	114,198
	<u>\$ 2,614,311</u>

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
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	1,136,600	172,648	-	1,309,248
Total capital assets, being depreciated, net	2,661,658	(172,648)	-	2,489,010
Capital assets, net	<u>\$ 3,061,658</u>	<u>\$ (172,648)</u>	<u>\$ -</u>	<u>\$ 2,889,010</u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental activities:				
Bond issuance costs	\$ 160,106	\$ -	\$ -	\$ 160,106
Less accumulated amortization	38,956	7,630	-	46,586
	\$ 121,150	\$ (7,630)	\$ -	\$ 113,520
Business-type activities:				
Bond issuance costs	\$ 134,250	\$ -	\$ -	\$ 134,250
Less accumulated amortization	-	25,631	-	25,631
	\$ 134,250	\$ (25,631)	\$ -	\$ 108,619

Amortization

Amortization expense was charge to functions as follows:

Governmental Activities:	
Interest on long-term debt	\$ 7,630
Business-type Activities:	
Water	\$ 25,631

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Development Block Grant Fund	\$ 231,980
General Fund	State Grants Fund	137,913
General Fund	HOME Rehabilitation Fund	178,118
General Fund	Neighborhood Stabilization Fund	345,895
General Fund	Engineering Services Fund	93,420
		\$ 987,326

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

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

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 2,357	Nonmajor Governmental Funds Cemetery Fund	\$ 2,357
Nonmajor Governmental Funds Farmers' Market Improvement Fund	18	General Fund	140,693
Sidewalk Replacement Fund	100,000		
State Grants Fund	34,675		
Arena Capital Improvements Fund	6,000		
	<u>140,693</u>		<u>140,693</u>
Nonmajor Governmental Funds Local Street Fund	880,000	General Fund	480,000
	<u>880,000</u>	Major Street and Trunkline Fund	<u>400,000</u>
	880,000		880,000
Nonmajor Governmental Funds Public Improvement Fund	54,572	Nonmajor Governmental Funds Public Improvement Fund	202,429
State Grants Fund	202,429	CDBG Fund	3,643
Arena Capital Improvements Fund	65,000	State Grants Fund	119,572
Lead Abatement Fund	3,643		
	<u>325,644</u>		<u>325,644</u>
Internal Service Fund General Insurance Fund	28,046	General Fund	28,046
	<u>\$ 1,376,740</u>		<u>\$ 1,376,740</u>

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	\$ 85,621	\$ 658,949
Special assessments	1,048,529	-
Total deferred revenue for governmental funds	<u>\$ 1,134,150</u>	<u>\$ 658,949</u>

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, 2011.

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Due within one year</u>
Governmental activities:					
General obligation debt	\$ 5,290,803	\$ -	\$ 69,048	\$ 5,221,755	\$ 70,000
Intergovernmental					
contractual obligations	1,065,428	-	820,578	244,850	29,000
Special assessment obligations	805,000	-	120,000	685,000	125,000
Installment purchase					
agreement	334,605	-	334,605	-	-
Compensated absences	1,260,900	1,232,764	1,305,188	1,188,476	197,000
Governmental activity					
long-term liabilities	<u>\$ 8,756,736</u>	<u>\$ 1,232,764</u>	<u>\$ 2,649,419</u>	<u>\$ 7,340,081</u>	<u>\$ 421,000</u>
Business-type activities:					
Revenue obligations	\$ 17,753,136	\$ -	\$ 1,230,928	\$ 16,522,208	\$ 1,230,000
Compensated absences	171,892	112,380	127,119	157,153	26,000
Business-type activity					
long-term liabilities	<u>\$ 17,925,028</u>	<u>\$ 112,380</u>	<u>\$ 1,358,047</u>	<u>\$ 16,679,361</u>	<u>\$ 1,256,000</u>
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	6,725,122	2,078,014	2,324,455	6,478,681	345,000
Component unit long-					
term liabilities	<u>\$ 7,725,122</u>	<u>\$ 2,078,014</u>	<u>\$ 2,324,455</u>	<u>\$ 7,478,681</u>	<u>\$ 345,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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%	\$ 5,235,000
Less bond discount	(13,245)

Intergovernmental contractual obligations:

\$500,000 State of Michigan Brownfield Redevelopment loan of 2008 payable in annual installments of \$33,424 through March 2019; including interest at 2%	244,850
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Special assessment obligations:

\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$125,000 to \$150,000 through June 2016; interest at 3.7% to 4.05%	685,000
	6,151,605
Compensated absences	1,188,476
	<u><u>\$ 7,340,081</u></u>

Business-type activities:

Revenue obligations:

\$5,995,000 Water supply system refunding bonds of 2010 payable in annual installments of \$600,000 to \$770,000 through May 2019; interest at 2.00% to 4.25%	\$ 5,415,000
Add bond premium	152,208
\$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$630,000 to \$840,000 through October 2025; interest at 2.13%	10,955,000
	16,522,208
Compensated absences	157,153
	<u><u>\$ 16,679,361</u></u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 \$265,000 to \$330,000 through June 2018; interest at 2% to 4%	2,045,000
Add bond premium	33,014
\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 payable in annual installments of \$240,000 to \$335,000 through November 2025; interest at 3.88% to 4.85%	4,405,000
Less bond discount	(4,333)
	<u><u>\$ 7,478,681</u></u>

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

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

On March 22, 2011, the City issued \$2,045,000 of Downtown Development Authority Refunding Bonds of 2011 to refund the outstanding balance of the Downtown Development Authority Refunding Bonds 2002. The City refunded the Downtown Development Authority Refunding Bonds 2002 to reduce its total debt service payments over the next 7 years by \$82,384 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$72,474.

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, 2011 was approximately \$5,345,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

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

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2011.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE H—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2011 follow:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 223,527	\$ 242,747	\$ 1,230,000	\$ 410,188	\$ 345,000	\$ 256,659
2013	229,098	234,751	1,250,000	384,694	455,000	246,210
2014	234,680	226,429	1,295,000	352,635	520,000	231,056
2015	245,274	217,771	1,330,000	320,857	590,000	212,499
2016	250,879	208,565	1,370,000	283,360	625,000	190,480
2017-2021	906,392	943,406	5,855,000	811,640	3,505,000	588,241
2022-2026	1,635,000	670,625	4,040,000	218,133	1,410,000	176,925
2027-2031	1,740,000	327,368	-	-	-	-
2032-2033	700,000	29,400	-	-	-	-
	\$ 6,164,850	\$ 3,101,062	\$ 16,370,000	\$ 2,781,507	\$ 7,450,000	\$ 1,902,070

Annual debt service requirements to maturity by type of debt as of June 30, 2011 follow:

Year ending June 30,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2012	\$ 281,145	\$ 601,659	\$ 1,640,188	\$ -
2013	278,345	701,210	1,634,694	-
2014	275,545	751,056	1,647,635	-
2015	272,745	802,499	1,650,857	-
2016	269,945	815,480	1,653,360	-
2017-2021	1,749,525	3,093,241	6,666,640	1,000,000
2022-2026	2,305,625	1,586,925	4,258,133	-
2027-2031	2,067,368	-	-	-
2032-2033	729,400	-	-	-
	\$ 8,229,643	\$ 8,352,070	\$ 19,151,507	\$ 1,000,000

Year ending June 30,	Special	
	Intergovernmental	Assessment
	Governmental activities	Governmental activities
2012	\$ 33,424	\$ 151,705
2013	33,424	152,080
2014	33,424	152,140
2015	33,425	156,875
2016	33,424	156,075
2017-2021	100,273	-
2022-2026	-	-
2027-2031	-	-
2032-2033	-	-
	\$ 267,394	\$ 768,875

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 2011 and 2010 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, 2011	\$ 178,552	\$ 61,897	\$ 156,704	\$ 83,745
June 30, 2010*	186,566	73,015	81,029	178,552

* Six month fiscal period

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

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of \$350,000 per covered individual's lifetime. As of June 30, 2011, the claims liability including incurred but not reported claims was \$15,462. 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 2011 and 2010 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, 2011	\$ 7,040	\$ 970,245	\$ 961,823	\$ 15,462
June 30, 2010*	50,267	410,382	453,609	7,040

* Six month fiscal period

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 with the exception of a tax appeal. The City's management and counsel estimate a loss of \$500,000 for this tax appeal which has been recorded as a liability on the City's financial statements.

Commitments

The City has various contract agreements for street projects as of June 30, 2011 of approximately \$1,477,000. Approximately \$1,064,000 of these costs are being financed by grants with the remainder coming from the Major Streets Fund. The City also has a contract agreement for water and sewer improvements for approximately \$137,000 which with the costs being paid for by the Water and Sewer funds.

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2012 with the option by the tenant to renew the term of the lease for five successive periods of five years each. The City received rental income of \$47,895 for the year ended June 30, 2011. The future minimum rental income for this lease for the year ended June 30, 2012 is \$33,889.

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

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 6.53 to 18.19 percent of annual covered payroll depending on the plan. The contributions requirements of plan members and the City are established and may be amended by MERS.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE J—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Annual Pension Cost. For the year ended June 30, 2011, the City's annual pension cost of approximately \$1,228,000 was equal to the City's required contribution. The City's actual contribution was \$1,000,000 greater than the required contribution.

Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2009	\$ 888,000	100 %	\$ -
June 30, 2010*	605,000	100	-
June 30, 2011	1,228,000	181	-

* Six month fiscal period

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 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, 2010 was 5 years.

Funding Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was 100 percent funded. The actuarial accrued liability for benefits was approximately \$88,391,000, and the actuarial value of assets was approximately \$88,810,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately a negative \$419,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,533,000, and the ratio of the UAAL to the covered payroll was a negative 4 percent.

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE J—PENSION PLANS—Continued

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS and administered by the ICMA Retirement Corporation, an independent third party. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments. Depending on employee group, the Plan covers all City employees hired after January 2005 to July 2006 and those hired earlier who elected to convert from the defined benefit plan. The authority for establishing or amending the plan's provisions and for establishing or amending contribution requirements rests with the City Commission as determined by negotiated labor contracts. The City is required to contribute 3 percent to 10 percent of a qualified employees' annual compensation each year depending on employee group. Qualified employees are required to contribute 0 percent to 6 percent of annual compensation depending on employee group. For the year ended June 30, 2011, City and employee contributions were approximately \$127,000 and \$71,000, respectively.

Deferred Compensation Plan

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

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

NOTE 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

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE K—OTHER POST-EMPLOYMENT BENEFITS—Continued

Annual OPEB Cost. For the year ended June 30, 2011, the City's OPEB cost (expense) of approximately \$1,079,000 was equal to the City's ARC and actual contribution.

Trend Information

Period Ended	Approximate Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net ARC Obligaion
December 31, 2009	\$ 1,698,000	100 %	\$ -
June 30, 2010*	530,000	100	-
June 30, 2011	1,079,000	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, 2009 is 28 years.

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

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

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE L—PRIOR PERIOD ADJUSTMENT

On July 1, 2010, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Under GASB 54, the Budget Stabilization Fund no longer qualifies as a special revenue fund type and all Budget Stabilization revenues and expenditures are reported in the General Fund. The June 30, 2010 Budget Stabilization Fund fund balance is required to be reclassified to the General Fund. The City's restated General Fund and Other governmental funds beginning fund balances are as follows:

	<u>General Fund</u>	<u>Other governmental funds</u>
Fund balance at July 1, 2010	\$ 6,038,454	\$ 1,500,000
Reclassification of Budget Stabilization Fund fund balance	<u>1,500,000</u>	<u>(1,500,000)</u>
Fund balance at July 1, 2010, restated	<u><u>\$ 7,538,454</u></u>	<u><u>\$ -</u></u>

NOTE M—SUBSEQUENT EVENT

On September 30, 2011, the City issued \$2,000,000 of capital improvement bonds to finance various street improvements throughout the City. The bonds have an interest rate of 2.98 percent.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended June 30, 2011
(with comparative actual amounts for the six months ended June 30, 2010)

REVENUES	2011			Variance with final budget- positive (negative)	2010
	Budgeted amounts		Actual		
	Original	Final			
Taxes					
City income tax	\$ 6,000,000	\$ 6,700,000	\$ 6,599,753	\$ (100,247)	\$ 3,368,057
Property taxes	8,334,919	8,334,919	8,357,640	22,721	7,927,575
Industrial facilities taxes	289,960	93,000	93,618	618	468,369
Payments in lieu of taxes	91,000	91,000	95,402	4,402	91,181
Delinquent chargeback collected	5,000	5,000	17	(4,983)	-
Total taxes	14,720,879	15,223,919	15,146,430	(77,489)	11,855,182
Licenses and permits					
Business licenses	32,500	26,000	31,110	5,110	25,934
Liquor licenses	47,000	67,000	61,955	(5,045)	22,739
Cable TV fees	320,000	340,000	362,103	22,103	178,239
Rental property registration	100,000	110,000	115,598	5,598	47,367
Burial permits	110,000	110,000	93,483	(16,517)	39,624
Building permits	225,000	225,000	255,906	30,906	135,155
Electrical permits	85,000	72,000	78,852	6,852	43,576
Plumbing permits	35,000	28,000	29,961	1,961	20,254
Mechanical permits	50,000	60,000	61,611	1,611	26,204
Vacant building fees	27,000	75,000	89,060	14,060	45,070
Total licenses and permits	1,031,500	1,113,000	1,179,639	66,639	584,162
Intergovernmental revenues					
Federal grants	77,713	180,626	192,842	12,216	122,965
State					
Grants	28,000	20,894	42,458	21,564	7,805
State shared revenue	3,774,813	3,594,813	3,846,859	252,046	1,832,066
Total intergovernmental revenues - State	3,802,813	3,615,707	3,889,317	273,610	1,839,871
Local	75,000	75,000	75,000	-	25,000

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund

For the year ended June 30, 2011

(with comparative actual amounts for the six months ended June 30, 2010)

	2011			2010
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Charges for services	\$ 298,300	\$ 295,000	\$ 2,326	\$ 194,131
Tax administration fees	225,000	225,000	-	110,000
Utility administration fees	-	12,600	72	79
Reimbursement for elections	1,152,992	1,152,992	(8,972)	582,084
Indirect cost reimbursements	4,000	3,000	(200)	1,500
Site plan review fee	27,400	25,950	6,340	12,914
Sale of cemetery lots	99,000	80,185	4,368	31,375
Police miscellaneous	40,000	40,000	(900)	23,300
Police impound fees	300	40	-	155
Landlord's alert fee	80,000	120,210	-	35,212
Fire protection-state property	8,000	8,000	(1,842)	3,290
Zoning fees	3,500	2,000	39	197
Clerk fees	5,000	3,500	615	3,555
Clerk fees - passport fees	10,000	2,000	(1,190)	-
Tax abatement application fees	90,000	65,000	(4,642)	62,523
Treasurer fees	10,000	13,000	(40)	6,125
False alarm fees	22,000	18,000	2,398	6,571
Miscellaneous cemetery income	9,000	9,000	1,401	5,082
Senior transit program fees	3,000	2,000	2,985	560
Fire miscellaneous	80,000	80,000	(238)	38,809
Sanitation stickers	70,000	50,000	(20,507)	18,349
Lot cleanup fees	70,000	60,000	(10,240)	20,102
Reimbursements - lot mowing and demolitions	100,000	118,760	(13,823)	30,546
Special events reimbursements	35,000	19,156	1,675	19,754
Recreation program fees				
Total charges for services	2,442,492	2,405,393	(40,375)	1,206,213

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund

For the year ended June 30, 2011
 (with comparative actual amounts for the six months ended June 30, 2010)

	2011			2010
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Fines and forfeitures				
Income tax - penalty and interest	\$ 200,000	\$ 180,000	\$ (23,661)	\$ 109,441
Late fees on current taxes	40,000	40,000	(9,125)	42,766
Interest on late invoices	2,000	2,500	(489)	247
Parking fines	100,000	110,000	(9,115)	71,160
Court fines	170,000	170,000	(27,236)	72,929
Total fines and forfeitures	512,000	502,500	(69,626)	296,543
Interest and rental income				
Investment earnings	50,000	50,000	35,120	(2,349)
Flea market	29,000	27,233	(1,767)	11,346
Farmers' market	35,000	43,471	8,471	18,484
City right of way rental	8,561	6,800	(1,761)	6,800
Fire station lease - Central Dispatch	42,000	47,895	5,895	20,879
Great Lakes Naval Memorial lease	15,000	5,000	(2,500)	-
McGraft park rentals	45,000	49,995	2,480	13,844
Other park rentals	37,200	45,200	4,325	23,334
Total interest and rental income	261,761	264,756	50,263	92,338
Other				
Sale of land and assets	1,000	1,000	(1,000)	500
Police sale and auction proceeds	-	-	-	1,823
CDBG program reimbursements	393,534	332,387	(7,994)	48,030
Fisherman's Landing reimbursement	14,500	16,106	-	-
Sanitation reimbursements	-	-	-	43,030
Contributions	14,000	11,000	1,455	19,740
Contribution - Veteran's Park maintenance	18,500	19,402	-	-
Community Foundation for Muskegon County	1,500	12,005	10,505	2,394
Miscellaneous reimbursements	1,000	1,000	(1,000)	-
Miscellaneous and sundry	59,000	58,668	(11,839)	2,786
Total other	503,034	441,063	(9,873)	118,303
Total revenues	23,427,192	23,821,964	24,027,329	16,140,577

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund

For the year ended June 30, 2011
 (with comparative actual amounts for the six months ended June 30, 2010)

EXPENDITURES	2011			Variance with final budget- positive (negative)	2010
	Budgeted amounts		Actual		
	Original	Final			
Current					
Public representation services					
City commission	\$ 79,739	\$ 83,539	\$ 84,146	\$ (607)	\$ 44,724
City promotions and public relations	11,350	11,650	4,191	7,459	3,044
City manager	274,945	274,945	264,410	10,535	142,878
Contributions to outside agencies	165,824	168,024	167,296	728	98,026
City attorney	322,508	322,508	331,875	(9,367)	160,031
Total public representation services	854,366	860,666	851,918	8,748	448,703
Administrative services					
City clerk	305,247	308,859	286,050	22,809	123,748
Civil service	87,123	121,000	126,050	(5,050)	91,460
Affirmative action	84,484	84,484	80,231	4,253	39,958
Total administrative services	476,854	514,343	492,331	22,012	255,166
Financial services					
Finance administration	399,605	403,190	412,551	(9,361)	233,852
Assessing	465,723	438,423	420,148	18,275	240,136
Arena administration	235,000	176,855	242,923	(66,068)	101,867
Income tax administration	425,244	421,684	407,907	13,777	217,821
Information systems	394,350	393,322	376,995	16,327	196,816
City treasurer	461,128	463,707	492,185	(28,478)	250,938
Total financial services	2,381,050	2,297,181	2,352,709	(55,528)	1,241,430
Public safety					
Police department	9,013,330	8,896,024	8,711,831	184,193	4,289,770
Fire department	3,467,928	3,667,567	3,711,381	(43,814)	1,860,345
Fire safety inspections	705,015	705,015	656,408	48,607	372,009
Total public safety	13,186,273	13,268,606	13,079,620	188,986	6,522,124

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund

For the year ended June 30, 2011
 (with comparative actual amounts for the six months ended June 30, 2010)

	2011			Variance with final budget- positive (negative)	2010
	Budgeted amounts		Actual		
	Original	Final			
Public works					
Street lighting	\$ 775,000	\$ 750,000	\$ 784,399	\$ (34,399)	\$ 428,615
Community event support	17,466	23,600	20,205	3,395	14,560
Senior citizen transit	68,287	69,287	68,341	946	31,899
General sanitation	1,830,278	1,873,347	1,609,780	263,567	789,587
Storm water management	17,786	17,786	17,029	757	4,000
City hall maintenance	269,847	286,115	243,582	42,533	136,435
Cemeteries maintenance	384,215	384,215	336,006	48,209	183,994
Total public works	3,362,879	3,404,350	3,079,342	325,008	1,589,090
Community and economic development					
Planning, zoning and economic development	376,765	376,765	333,610	43,155	203,414
Environmental services	317,424	374,422	411,784	(37,362)	166,120
Edison Landing subsidy	100,000	100,000	100,000	-	50,000
Total community and economic development	794,189	851,187	845,394	5,793	419,534
Culture and recreation					
Parks maintenance	1,076,452	1,075,256	979,028	96,228	495,147
McGraft park maintenance	54,197	54,197	47,132	7,065	14,396
General and inner city recreation programs	75,000	117,835	90,962	26,873	101,357
Graffiti removal	4,861	6,861	3,247	3,614	2,454
Parking operations	3,000	5,500	7,204	(1,704)	2,445
Farmers' market and flea market	52,242	52,242	51,209	1,033	20,853
Total culture and recreation	1,265,752	1,311,891	1,178,782	133,109	636,652
Other governmental functions					
Insurance premiums	300,000	273,489	259,907	13,582	133,527
Other	250,000	250,000	515,221	(265,221)	67,096
Contribution to MERS pension plan	-	1,000,000	1,000,000	-	-
Total other governmental functions	550,000	1,523,489	1,775,128	(251,639)	200,623

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
 General Fund

For the year ended June 30, 2011
 (with comparative actual amounts for the six months ended June 30, 2010)

	2011			2010
	Budgeted amounts		Variance with final budget- positive (negative)	Actual
	Original	Final	Actual	Actual
Debt service				
Principal	\$ 90,000	\$ 1,024,605	\$ -	\$ -
Interest and fees	203,945	228,190	228,190	109,174
Total debt service	293,945	1,252,795	1,252,795	109,174
Capital outlay	-	30,000	-	13,722
Total expenditures	23,165,308	25,314,508	24,908,019	11,436,218
Excess of revenues over (under) expenditures	261,884	(1,492,544)	(880,690)	4,704,359
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	2,357	2,188
Transfers out	(308,046)	(408,046)	(648,739)	(257,783)
Total other financing sources (uses)	(258,046)	(358,046)	(646,382)	(255,595)
Net change in fund balance	\$ 3,838	\$ (1,850,590)	(1,527,072)	4,448,764
Fund balance at beginning of year, as restated			7,538,454	3,138,662
Fund balance at end of year			\$ 6,011,382	\$ 7,587,426

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Major Street and Trunkline Fund
For the year ended June 30, 2011

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal	\$ 2,592,000	\$ 1,639,000	\$ 1,457,137	\$ (181,863)
State	2,686,841	2,686,841	2,704,187	17,346
Charges for services	-	-	64,370	64,370
Investment earnings	25,000	25,000	36,626	11,626
Other	240,000	204,514	523,552	319,038
Total revenues	5,543,841	4,555,355	4,785,872	230,517
EXPENDITURES				
Current				
Highways, streets and bridges	5,786,057	4,447,057	4,179,028	268,029
Excess of revenues over (under) expenditures	(242,216)	108,298	606,844	498,546
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	2,000,000	-	-	-
Transfers out	(400,000)	(400,000)	(400,000)	-
Total other financing sources (uses)	1,600,000	(400,000)	(400,000)	-
Net change in fund balance	\$ 1,357,784	\$ (291,702)	206,844	\$ 498,546
Fund balance at July 1, 2010			359,157	
Fund balance at June 30, 2011			\$ 566,001	

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, 2011

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

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/08	\$ 86,928	\$ 86,794	\$ (134)	100 %	\$ 13,107	(1) %
12/31/09	86,682	87,395	713	99	12,614	6
12/31/10	88,810	88,391	(419)	100	11,533	(4)

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

(Dollar amounts in thousands)

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

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

OTHER SUPPLEMENTAL INFORMATION

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

Capital Projects Funds

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

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

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

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

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

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

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

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS—CONTINUED

Capital Projects Funds—Continued

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

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

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

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

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

Permanent Funds

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

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

City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2011

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
ASSETS				
Cash and investments	\$ 4,158,343	\$ 740,039	\$ 2,065,863	\$ 1,352,441
Receivables				
Accounts and loans (net of allowance for uncollectibles)	737,951	2,207	732,838	2,906
Special assessments	509,211	374,644	134,567	-
Due from other governmental units	708,434	100,792	607,642	-
Prepaid items	5,410	5,410	-	-
Total assets	\$ 6,119,349	\$ 1,223,092	\$ 3,540,910	\$ 1,355,347
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 53,137	\$ 25,554	\$ 27,583	\$ -
Accrued liabilities	22,002	13,607	8,395	-
Due to other funds	893,906	-	893,906	-
Deferred revenue	801,347	374,644	426,703	-
Total liabilities	1,770,392	413,805	1,356,587	-
Fund balances				
Nonspendable				
Prepaid items	5,410	5,410	-	-
Long-term loans receivable	349,400	-	349,400	-
Perpetual care	1,336,284	-	-	1,336,284
Restricted for:				
Streets and highways	657,930	657,930	-	-
Law enforcement	140,828	140,828	-	-
Perpetual care	19,063	-	-	19,063
Other purposes	5,119	5,119	-	-
Assigned for capital projects	2,073,027	-	2,073,027	-
Unassigned	(238,104)	-	(238,104)	-
Total fund balances	4,348,957	809,287	2,184,323	1,355,347
Total liabilities and fund balances	\$ 6,119,349	\$ 1,223,092	\$ 3,540,910	\$ 1,355,347

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2011

REVENUES	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
Intergovernmental revenues				
Federal	\$ 2,143,552	\$ -	\$ 2,143,552	\$ -
State	1,061,214	761,426	299,788	-
Local	2,500	-	2,500	-
Charges for services	339,816	197,011	113,065	29,740
Fines and forfeitures	14,380	14,380	-	-
Investment earnings	60,853	30,188	26,224	4,441
Other	467,159	138,025	329,134	-
Total revenues	4,089,474	1,141,030	2,914,263	34,181
EXPENDITURES				
Current				
Public safety	8,356	8,356	-	-
Highways, streets and bridges	1,523,013	1,523,013	-	-
Culture and recreation	18,238	18,238	-	-
Debt service				
Principal	320,578	-	320,578	-
Interest and fees	39,068	-	39,068	-
Capital outlay	3,183,905	-	3,183,905	-
Total expenditures	5,093,158	1,549,607	3,543,551	-
Excess of revenues over (under) expenditures	(1,003,684)	(408,577)	(629,288)	34,181
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	120,118	-	120,118	-
Transfers in	1,346,337	880,018	466,319	-
Transfers out	(328,001)	-	(325,644)	(2,357)
Total other financing sources (uses)	1,138,454	880,018	260,793	(2,357)
Net change in fund balances	134,770	471,441	(368,495)	31,824
Fund balances at July 1, 2010, as restated	4,214,187	337,846	2,552,818	1,323,523
Fund balances at June 30, 2011	\$ 4,348,957	\$ 809,287	\$ 2,184,323	\$ 1,355,347

City of Muskegon
COMBINING BALANCE SHEET
Other Special Revenue Funds
June 30, 2011

	Total other special revenue funds	Local Street	Criminal Forfeitures	Farmers' Market Improvement	Tree Replacement
ASSETS					
Cash and investments	\$ 740,039	\$ 594,004	\$ 140,828	\$ -	\$ 5,207
Receivables					
Accounts (net of allowance for uncollectibles)	2,207	2,207	-	-	-
Special assessments	374,644	374,644	-	-	-
Due from other governmental units	100,792	100,792	-	-	-
Prepaid items	5,410	5,410	-	-	-
Total assets	\$ 1,223,092	\$ 1,077,057	\$ 140,828	\$ -	\$ 5,207
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 25,554	\$ 25,466	\$ -	\$ -	\$ 88
Accrued liabilities	13,607	13,607	-	-	-
Deferred revenue	374,644	374,644	-	-	-
Total liabilities	413,805	413,717	-	-	88
Fund balances					
Nonspendable - prepaid items	5,410	5,410	-	-	-
Restricted for:					
Streets and highways	657,930	657,930	-	-	-
Law enforcement	140,828	-	140,828	-	-
Other purposes	5,119	-	-	-	5,119
Total fund balances	809,287	663,340	140,828	-	5,119
Total liabilities and fund balances	\$ 1,223,092	\$ 1,077,057	\$ 140,828	\$ -	\$ 5,207

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Special Revenue Funds
For the year ended June 30, 2011

	Total other special revenue funds	Local Street	Criminal Forfeitures	Farmers' Market Improvement	Tree Replacement
REVENUES					
Intergovernmental revenues - State	\$ 761,426	\$ 761,426	\$ -	\$ -	\$ -
Charges for services	197,011	197,011	-	-	-
Fines and forfeitures	14,380	-	14,380	-	-
Investment earnings	30,188	29,411	688	65	24
Other	138,025	138,025	-	-	-
Total revenues	1,141,030	1,125,873	15,068	65	24
EXPENDITURES					
Current					
Public safety	8,356	-	8,356	-	-
Highways, streets and bridges	1,523,013	1,523,013	-	-	-
Culture and recreation	18,238	-	-	17,897	341
Total expenditures	1,549,607	1,523,013	8,356	17,897	341
Excess of revenues over (under) expenditures	(408,577)	(397,140)	6,712	(17,832)	(317)
OTHER FINANCING SOURCES					
Transfers in	880,018	880,000	-	18	-
Net change in fund balances	471,441	482,860	6,712	(17,814)	(317)
Fund balances at July 1, 2010, as restated	337,846	180,480	134,116	17,814	5,436
Fund balances at June 30, 2011	\$ 809,287	\$ 663,340	\$ 140,828	\$ -	\$ 5,119

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Other Special Revenue Funds
For the year ended June 30, 2011

	Local Street		Criminal Forfeitures			
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES						
Intergovernmental revenues						
Federal	\$ 120,000	\$ -	\$ (120,000)	\$ -	\$ -	\$ -
State	764,181	761,426	(2,755)	-	-	-
Charges for services	-	197,011	197,011	-	-	-
Fines and forfeitures	-	-	-	10,000	14,380	4,380
Investment earnings	10,000	29,411	19,411	500	688	188
Other	93,143	138,025	44,882	-	-	-
Total revenues	987,324	1,125,873	138,549	10,500	15,068	4,568
EXPENDITURES						
Current						
Public safety	-	-	-	45,000	8,356	36,644
Highways, streets and bridges	1,685,556	1,523,013	162,543	-	-	-
Culture and recreation	-	-	-	-	-	-
Total expenditures	1,685,556	1,523,013	162,543	45,000	8,356	36,644
Excess of revenues over (under) expenditures	(698,232)	(397,140)	301,092	(34,500)	6,712	41,212
OTHER FINANCING SOURCES						
Transfers in	880,000	880,000	-	-	-	-
Net change in fund balances	<u>\$ 181,768</u>	482,860	<u>\$ 301,092</u>	<u>\$ (34,500)</u>	6,712	<u>\$ 41,212</u>
Fund balances at July 1, 2010		180,480			134,116	
Fund balances at June 30, 2011		<u>\$ 663,340</u>			<u>\$ 140,828</u>	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
Other Special Revenue Funds
For the year ended June 30, 2011

	Farmers' Market Improvement			Tree Replacement		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES						
Intergovernmental revenues						
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-	-	-
Charges for services	-	-	-	400	-	(400)
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	100	65	(35)	100	24	(76)
Other	-	-	-	-	-	-
Total revenues	100	65	(35)	500	24	(476)
EXPENDITURES						
Current						
Public safety	-	-	-	-	-	-
Highways, streets and bridges	-	-	-	-	-	-
Culture and recreation	22,000	17,897	4,103	3,900	341	3,559
Total expenditures	22,000	17,897	4,103	3,900	341	3,559
Excess of revenues over (under) expenditures	(21,900)	(17,832)	4,068	(3,400)	(317)	3,083
OTHER FINANCING SOURCES						
Transfers in	4,086	18	(4,068)	-	-	-
Net change in fund balances	<u>\$ (17,814)</u>	<u>(17,814)</u>	<u>\$ -</u>	<u>\$ (3,400)</u>	<u>(317)</u>	<u>\$ 3,083</u>
Fund balances at July 1, 2010		<u>17,814</u>			<u>5,436</u>	
Fund balances at June 30, 2011		<u>\$ -</u>			<u>\$ 5,119</u>	

City of Muskegon
COMBINING BALANCE SHEET
Other Capital Projects Funds
June 30, 2011

	Total other capital projects funds	Public Improvement		Sidewalk Replacement		Michcon Remediation		EDC Revolving Loan		Community Development Block Grant		State Grants		HOME Rehabilitation		Arena Capital Improvements		Lead Abatement		Neighborhood Stabilization		Economic Development - Suppl	
		\$		\$		\$		\$		\$		\$		\$		\$		\$		\$		\$	
ASSETS																							
Cash and investments	\$ 2,065,863	\$	546,155	\$	663,728	\$	215,981	\$	136,611	\$	-	\$	-	\$	-	\$	779	\$	-	\$	-	\$	502,609
Receivables																							
Accounts and loans (net of allowance for uncollectibles)	732,838		21,555		-		-		40,031		357,965		309,369		-		-	-	-	-		3,918	-
Special assessments	134,567		-		134,567		-		-		-		-		-		-	-	-		-	-	-
Due from other governmental units	607,642		-		-		-		-		171,102		65,983		16,619		-	-	-		353,938	-	-
Total assets	\$ 3,540,910	\$	567,710	\$	798,295	\$	215,981	\$	176,642	\$	529,067	\$	375,352	\$	16,619	\$	779	\$	-	\$	357,856	\$	502,609
LIABILITIES AND FUND BALANCES (DEFICIT)																							
Liabilities																							
Accounts payable	\$ 27,583	\$	204	\$	-	\$	-	\$	-	\$	15,577	\$	-	\$	3,407	\$	-	\$	-	\$	8,395	\$	-
Accrued liabilities	8,395		-		-		-		-		3,561		-		1,268		-	-	-		3,566		-
Due to other funds	893,906		-		-		-		-		231,980		137,913		178,118		-	-	-		345,895		-
Deferred revenue	426,703		16,000		132,754		-		-		277,949		-		-		-	-	-		-		-
Total liabilities	1,356,587		16,204		132,754		-		-		529,067		137,913		182,793		-	-	-		357,856		-
Fund balances (deficit)																							
Nonspendable - long-term loans receivable	349,400		-		-		-		40,031		-		309,369		-		-	-	-		-		-
Assigned for capital projects	2,073,027		551,506		665,541		215,981		136,611		-		-		-		779	-	-		-		502,609
Unassigned	(238,104)		-		-		-		-		-		(71,930)		(166,174)		-	-	-		-		-
Total fund balances (deficit)	2,184,323		551,506		665,541		215,981		176,642		-		237,439		(166,174)		779		-		-		502,609
Total liabilities and fund balances (deficit)	\$ 3,540,910	\$	567,710	\$	798,295	\$	215,981	\$	176,642	\$	529,067	\$	375,352	\$	16,619	\$	779	\$	-	\$	357,856	\$	502,609

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 Other Capital Projects Funds
 For the year ended June 30, 2011

	Total other capital projects funds	Public Improvement	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement	Neighborhood Stabilization	Economic Development - Suppi
REVENUES												
Intergovernmental revenues												
Federal	\$ 2,143,552	-	\$ -	-	\$ -	\$ 922,014	\$ 162,729	\$ 139,524	\$ -	\$ -	\$ 919,285	\$ -
State	299,788	-	-	-	-	-	299,788	-	-	-	-	-
Local	2,500	2,500	-	-	-	-	-	-	-	-	-	-
Charges for services	113,065	94,428	-	-	-	-	-	-	18,637	-	-	-
Investment earnings	26,224	6,974	13,596	1,080	1,098	141	613	-	217	-	-	2,505
Other	329,134	3,305	75,715	-	28,502	28,172	-	-	64,500	27,743	101,197	-
Total revenues	2,914,263	107,207	89,311	1,080	29,600	950,327	463,130	139,524	83,354	27,743	1,020,482	2,505
EXPENDITURES												
Debt service												
Principal	320,578	-	120,000	-	-	-	200,578	-	-	-	-	-
Interest and fees	39,068	-	30,905	-	-	-	8,163	-	-	-	-	-
Capital outlay	3,183,905	109,292	4,861	178	19,725	986,755	634,622	139,524	225,826	42,640	1,020,482	-
Total expenditures	3,543,551	109,292	155,766	178	19,725	986,755	843,363	139,524	225,826	42,640	1,020,482	-
Excess of revenues over (under) expenditures	(629,288)	(2,085)	(66,455)	902	9,875	(36,428)	(380,233)	-	(142,472)	(14,897)	-	2,505
OTHER FINANCING SOURCES (USES)												
Proceeds from sale of capital assets	120,118	4,817	-	-	-	40,071	-	75,230	-	-	-	-
Transfers in	466,319	54,572	100,000	-	-	-	237,104	-	71,000	3,643	-	-
Transfers out	(325,644)	(202,429)	-	-	-	(3,643)	(119,572)	-	-	-	-	-
Total other financing sources (uses)	260,793	(143,040)	100,000	-	-	36,428	117,532	75,230	71,000	3,643	-	-
Net change in fund balances	(368,495)	(145,125)	33,545	902	9,875	-	(262,701)	75,230	(71,472)	(11,254)	-	2,505
Fund balances (deficit) at July 1, 2010	2,552,818	696,631	631,996	215,079	166,767	-	500,140	(241,404)	72,251	11,254	-	500,104
Fund balances (deficit) at June 30, 2011	\$ 2,184,323	\$ 551,506	\$ 665,541	\$ 215,981	\$ 176,642	\$ -	\$ 237,439	\$ (166,174)	\$ 779	\$ -	\$ -	\$ 502,609

DESCRIPTION OF INTERNAL SERVICE FUNDS

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

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

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

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

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

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

City of Muskegon
COMBINING STATEMENT OF NET ASSETS (DEFICITS)
Internal Service Funds
June 30, 2011

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 4,568,483	\$ -	\$ 2,880,251	\$ 1,420,174	\$ 268,058
Accounts receivable	173,379	91,025	6,130	76,224	-
Inventories	29,836	-	29,836	-	-
Prepaid items	748,322	1,729	61,735	679,410	5,448
Total current assets	5,520,020	92,754	2,977,952	2,175,808	273,506
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	7,186,154	26,355	7,125,110	-	34,689
Less accumulated depreciation	(7,333,410)	(26,355)	(6,105,386)	-	(1,201,669)
Total noncurrent assets	1,667,950	-	1,019,724	-	648,226
Total assets	7,187,970	92,754	3,997,676	2,175,808	921,732

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Accounts payable	213,832	846	79,882	112,375	20,729
Accrued liabilities	50,308	11,465	14,339	1,237	23,267
Due to other funds	93,420	93,420	-	-	-
Bonds and other obligations, due within one year	16,000	4,000	4,000	-	8,000
Total current liabilities	373,560	109,731	98,221	113,612	51,996
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	78,776	18,155	18,778	1,649	40,194
Total liabilities	452,336	127,886	116,999	115,261	92,190
NET ASSETS (DEFICITS)					
Invested in capital assets	1,667,950	-	1,019,724	-	648,226
Unrestricted	5,067,684	(35,132)	2,860,953	2,060,547	181,316
Total net assets (deficits)	\$ 6,735,634	\$ (35,132)	\$ 3,880,677	\$ 2,060,547	\$ 829,542

City of Muskegon
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICITS)
Internal Service Funds
For the year ended June 30, 2011

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 7,162,116	\$ 410,022	\$ 2,211,835	\$ 3,770,919	\$ 769,340
Other	215,192	128,631	75,412	11,081	68
Total operating revenues	7,377,308	538,653	2,287,247	3,782,000	769,408
OPERATING EXPENSES					
Administration	360,000	96,000	126,108	81,096	56,796
Insurance premiums and claims	3,983,943	-	-	3,983,943	-
Other operations	3,058,546	375,467	1,789,815	34,117	859,147
Depreciation	534,711	-	466,232	-	68,479
Total operating expenses	7,937,200	471,467	2,382,155	4,099,156	984,422
Operating income (loss)	(559,892)	67,186	(94,908)	(317,156)	(215,014)
NONOPERATING REVENUES					
Investment earnings	22,093	-	13,822	6,057	2,214
Gain on sale of capital assets	20,999	-	20,999	-	-
Total nonoperating revenues	43,092	-	34,821	6,057	2,214
Income (loss) before transfers	(516,800)	67,186	(60,087)	(311,099)	(212,800)
Transfers in	28,046	-	-	28,046	-
Change in net assets	(488,754)	67,186	(60,087)	(283,053)	(212,800)
Net assets (deficit) at July 1, 2010	7,224,388	(102,318)	3,940,764	2,343,600	1,042,342
Net assets (deficit) at June 30, 2011	\$ 6,735,634	\$ (35,132)	\$ 3,880,677	\$ 2,060,547	\$ 829,542

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers
Receipts from interfund services provided
Payments to suppliers
Payments to employees
Payments for interfund services used

Net cash provided by (used for) operating activities

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers in

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets
Proceeds from sale of capital assets

Net cash used for capital and related financing activities

CASH FLOW FROM INVESTING ACTIVITIES

Investment earnings

Net increase (decrease) in cash and investments

Cash and investments at July 1, 2010

Cash and investments at June 30, 2011

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities

Operating income (loss)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities
Depreciation expense
Change in assets and liabilities
Receivables, net
Inventories
Prepaid items
Accounts payable
Accrued liabilities
Due to other funds

Net cash provided by (used for) operating activities

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
\$	495,597	\$ 55,629	\$ 74,133	\$ 365,767	\$ 68
	7,162,116	410,022	2,211,835	3,770,919	769,340
	(5,125,868)	(59,740)	(1,022,031)	(3,885,128)	(158,969)
	(1,739,210)	(288,983)	(388,948)	(442,379)	(618,900)
	(684,827)	(116,928)	(461,986)	(4,511)	(101,402)
	107,808	-	413,003	(195,332)	(109,863)
	28,046	-	-	28,046	-
	(395,734)	-	(326,510)	-	(69,224)
	24,055	-	24,055	-	-
	(371,679)	-	(302,455)	-	(69,224)
	22,093	-	13,822	6,057	2,214
	(213,732)	-	124,370	(161,229)	(176,873)
	4,782,215	-	2,755,881	1,581,403	444,931
\$	4,568,483	\$ -	\$ 2,880,251	\$ 1,420,174	\$ 268,058
\$	(559,892)	\$ 67,186	\$ (94,908)	\$ (317,156)	\$ (215,014)
	534,711	-	466,232	-	68,479
	280,405	(73,002)	(1,279)	354,686	-
	(1,125)	-	(1,125)	-	-
	18,706	1,164	(7,605)	26,191	(1,044)
	(192,855)	159	48,298	(260,136)	18,824
	33,330	9,965	3,390	1,083	18,892
	(5,472)	(5,472)	-	-	-
\$	107,808	\$ -	\$ 413,003	\$ (195,332)	\$ (109,863)

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, 2011

	<u>Total funds</u>	<u>Collector</u>	<u>Current tax</u>	<u>Rehab Loan Escrow</u>
ASSETS				
Cash and investments	\$ 742,906	\$ 742,906	\$ -	\$ -
Accounts receivable	1,867	1,867	-	-
Total assets	\$ 744,773	\$ 744,773	\$ -	\$ -
LIABILITIES				
Accounts payable	\$ 213,981	\$ 213,981	\$ -	\$ -
Due to other governmental units	462,345	462,345	-	-
Deposits held for others	68,447	68,447	-	-
Total liabilities	\$ 744,773	\$ 744,773	\$ -	\$ -

City of Muskegon
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 Agency Funds
 For the year ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<u>COLLECTOR FUND</u>				
ASSETS				
Cash and investments	\$ 724,878	\$ 15,840,497	\$ 15,822,469	\$ 742,906
Accounts receivable	1,867	125,612	125,612	1,867
Total assets	\$ 726,745	\$ 15,966,109	\$ 15,948,081	\$ 744,773
LIABILITIES				
Accounts payable	\$ 70,826	\$ 10,700,913	\$ 10,557,758	\$ 213,981
Due to other governmental units	396,210	1,939,668	1,873,533	462,345
Deposits held for others	259,709	2,689,796	2,881,058	68,447
Total liabilities	\$ 726,745	\$ 15,330,377	\$ 15,312,349	\$ 744,773
<u>CURRENT TAX FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 31,893,215	\$ 31,893,215	\$ -
LIABILITIES				
Due to other governmental units	\$ -	\$ 22,522,095	\$ 22,522,095	\$ -
Due to other funds	-	8,748,563	8,748,563	-
Due to component units	-	494,334	494,334	-
Deposits held for others	-	128,223	128,223	-
Total liabilities	\$ -	\$ 31,893,215	\$ 31,893,215	\$ -
<u>REHAB LOAN ESCROW FUND</u>				
ASSETS				
Cash and investments	\$ 245	\$ 1,274	\$ 1,519	\$ -
LIABILITIES				
Accounts payable	\$ 245	\$ 1,274	\$ 1,519	\$ -
<u>ALL AGENCY FUNDS</u>				
ASSETS				
Cash and investments	\$ 725,123	\$ 47,734,986	\$ 47,717,203	\$ 742,906
Accounts receivable	1,867	125,612	125,612	1,867
Total assets	\$ 726,990	\$ 47,860,598	\$ 47,842,815	\$ 744,773
LIABILITIES				
Accounts payable	\$ 71,071	\$ 10,702,187	\$ 10,559,277	\$ 213,981
Due to other governmental units	396,210	24,461,763	24,395,628	462,345
Due to other funds	-	8,748,563	8,748,563	-
Due to component units	-	494,334	494,334	-
Deposits held for others	259,709	2,818,019	3,009,281	68,447
Total liabilities	\$ 726,990	\$ 47,224,866	\$ 47,207,083	\$ 744,773

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, 2011

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
ASSETS					
Cash and investments	\$ 375,287	\$ 21,348	\$ 272,145	\$ 16,445	\$ 65,349
FUND BALANCES					
Unassigned	\$ 375,287	\$ 21,348	\$ 272,145	\$ 16,445	\$ 65,349

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
June 30, 2011

Total fund balance—governmental funds		\$ 375,287
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>(1,309,248)</u>	2,889,010
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	192,605	
Accumulated amortization	<u>(52,466)</u>	140,139
Accrued interest in governmental activities is not reported in the governmental funds.		(37,700)
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.		<u>(7,478,681)</u>
Net assets of governmental activities in the Statement of Net Assets (Deficits)		<u><u>\$ (4,111,945)</u></u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Discretely Presented Component Units
For the year ended June 30, 2011

	Total discretely presented component units	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority
REVENUES					
Property taxes	\$ 494,334	\$ 84,658	\$ 281,424	\$ 53,769	\$ 74,483
Intergovernmental revenues - Local	100,000	100,000	-	-	-
Investment earnings	2,094	153	1,716	142	83
Other	75,000	75,000	-	-	-
Total revenues	671,428	259,811	283,140	53,911	74,566
EXPENDITURES					
Current					
Community and economic development	75,000	-	-	75,000	-
Debt service					
Principal	320,000	80,000	240,000	-	-
Interest and fees	318,252	195,297	122,955	-	-
Bond issuance costs	50,639	-	50,639	-	-
Total expenditures	763,891	275,297	413,594	75,000	-
Excess of revenues over (under) expenditures	(92,463)	(15,486)	(130,454)	(21,089)	74,566
OTHER FINANCING SOURCES (USES)					
Refunding long-term debt issued	2,045,000	-	2,045,000	-	-
Premium on refunding long-term debt issued	33,014	-	33,014	-	-
Payment on refunding of long-term debt	(2,005,000)	-	(2,005,000)	-	-
Total other financing sources (uses)	73,014	-	73,014	-	-
Net change in fund balances	(19,449)	(15,486)	(57,440)	(21,089)	74,566
Fund balances (deficit) at July 1, 2010	394,736	36,834	329,585	37,534	(9,217)
Fund balances at June 30, 2011	\$ 375,287	\$ 21,348	\$ 272,145	\$ 16,445	\$ 65,349

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
Discretely Presented Component Units
For the year ended June 30, 2011

Net change in fund balances—total governmental funds	\$ (19,449)
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	\$ (178,821)
Bond issuance costs	<u>50,639</u>
	(128,182)
Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets	(2,078,014)
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.	2,324,455
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.	
Change in net assets of governmental activities	<u>3,900</u>
	<u>\$ 102,710</u>

SCHEDULE OF INDEBTEDNESS

City of Muskegon

SCHEDULE OF INDEBTEDNESS

June 30, 2011

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2010	6/30/2011	Annual Interest Payable
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds (\$152,208 unamortized premium)	4/1/2010	\$ 5,995,000	2.00%	05/01/11	\$ 580,000	\$ -	-
			2.00%	05/01/12	600,000	600,000	184,088
			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>5,995,000</u>	<u>5,415,000</u>	<u>944,813</u>
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/10	615,000	-	-
			2.13%	10/01/11	630,000	630,000	226,100
			2.13%	10/01/12	640,000	640,000	212,606
			2.13%	10/01/13	655,000	655,000	198,847
			2.13%	10/01/14	670,000	670,000	184,769
			2.13%	10/01/15	685,000	685,000	170,372
			2.13%	10/01/16	695,000	695,000	155,709
			2.13%	10/01/17	710,000	710,000	140,781
			2.13%	10/01/18	725,000	725,000	125,534
			2.13%	10/01/19	745,000	745,000	109,916
			2.13%	10/01/20	760,000	760,000	93,925
			2.13%	10/01/21	775,000	775,000	77,616
			2.13%	10/01/22	790,000	790,000	60,988
			2.13%	10/01/23	810,000	810,000	43,988
			2.13%	10/01/24	825,000	825,000	26,616
			2.13%	10/01/25	840,000	840,000	8,925
					<u>11,570,000</u>	<u>10,955,000</u>	<u>1,836,691</u>
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 17,565,000</u>	<u>\$ 16,370,000</u>	<u>\$ 2,781,503</u>

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2011

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2010	6/30/2011	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
Installment purchase contract of 2005 (firetrucks)	7/26/2005	\$ 605,824	3.83%	04/01/11	\$ 61,420	\$ -	\$ -
			3.83%	04/01/12	64,055	-	-
			3.83%	04/01/13	66,803	-	-
			3.83%	04/01/14	69,669	-	-
			3.83%	04/01/15	72,658	-	-
					<u>334,605</u>	<u>-</u>	<u>-</u>
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	3.50%	06/01/11	120,000	-	-
			3.70%	06/01/12	125,000	125,000	26,705
			3.80%	06/01/13	130,000	130,000	22,080
			3.90%	06/01/14	135,000	135,000	17,140
			4.00%	06/01/15	145,000	145,000	11,875
			4.05%	06/01/16	150,000	150,000	6,075
					<u>805,000</u>	<u>685,000</u>	<u>83,875</u>
Capital improvement bonds of 2006 (fire station, recreation) (\$13,245 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/10	70,000	-	-
			4.00%	10/01/11	70,000	70,000	211,145
			4.00%	10/01/12	70,000	70,000	208,345
			4.00%	10/01/13	70,000	70,000	205,545
			4.00%	10/01/14	70,000	70,000	202,745
			4.00%	10/01/15	70,000	70,000	199,945
			4.00%	10/01/16	70,000	70,000	197,145
			4.00%	10/01/17	70,000	70,000	194,345
			4.00%	10/01/18	70,000	70,000	191,545
			4.00%	10/01/19	295,000	295,000	184,245
			4.00%	10/01/20	305,000	305,000	172,245
			4.00%	10/01/21	315,000	315,000	159,845
			4.00%	10/01/22	315,000	315,000	147,245
			4.00%	10/01/23	320,000	320,000	134,545
			4.00%	10/01/24	340,000	340,000	121,345
			4.00%	10/01/25	345,000	345,000	107,645
			4.00%	10/01/26	345,000	345,000	93,845
			4.10%	10/01/27	345,000	345,000	79,873
			4.10%	10/01/28	350,000	350,000	65,625
			4.10%	10/01/29	350,000	350,000	51,275
			4.20%	10/01/30	350,000	350,000	36,750
			4.20%	10/01/31	350,000	350,000	22,050
			4.20%	10/01/32	350,000	350,000	7,350
					<u>5,305,000</u>	<u>5,235,000</u>	<u>2,994,643</u>
State of Michigan urban land assembly loan	8/1/2005	\$ 700,000	0.00%	09/01/10	20,000	-	-
			0.00%	09/01/11	120,000	-	-
			0.00%	09/01/12	120,000	-	-
			0.00%	09/01/13	120,000	-	-
			0.00%	09/01/14	120,000	-	-
			0.00%	09/01/15	120,000	-	-
					<u>620,000</u>	<u>-</u>	<u>-</u>
State of Michigan environmental assessment loan	6/18/2010	\$ 500,000	2.00%	03/18/11	45,663	-	-
			2.00%	03/18/12	46,577	28,527	4,897
			2.00%	03/18/13	47,508	29,098	4,326
			2.00%	03/18/14	48,458	29,680	3,744
			2.00%	03/18/15	49,427	30,274	3,151
			2.00%	03/18/16	50,416	30,879	2,545
			2.00%	03/18/17	51,424	31,497	1,928
			2.00%	03/18/18	52,453	32,126	1,298
			2.00%	03/18/19	53,502	32,769	655
					<u>445,428</u>	<u>244,850</u>	<u>22,544</u>
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 7,510,033</u>	<u>\$ 6,164,850</u>	<u>\$ 3,101,062</u>
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					<u>\$ 25,075,033</u>	<u>\$ 22,534,850</u>	<u>\$ 5,882,565</u>

City of Muskegon

SCHEDULE OF INDEBTEDNESS - CONTINUED

June 30, 2011

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2010	6/30/2011	Annual Interest Payable
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Downtown Development Authority refunding bonds	9/1/2001	\$ 4,005,000	4.35%	06/01/11	240,000	-	-
			4.45%	06/01/12	245,000	-	-
			4.55%	06/01/13	260,000	-	-
			4.65%	06/01/14	270,000	-	-
			4.75%	06/01/15	280,000	-	-
			4.85%	06/01/16	300,000	-	-
			5.00%	06/01/17	315,000	-	-
			5.00%	06/01/18	335,000	-	-
					2,245,000	-	-
Downtown Development Authority refunding bonds (\$33,014 unamortized premium)	3/22/2011	\$ 2,045,000	2.00%	06/01/12	-	265,000	64,462
			2.50%	06/01/13	-	275,000	59,162
			2.75%	06/01/14	-	280,000	52,288
			3.25%	06/01/15	-	285,000	44,588
			3.50%	06/01/16	-	300,000	35,326
			3.75%	06/01/17	-	310,000	24,826
			4.00%	06/01/18	-	330,000	13,200
					-	2,045,000	293,852
Local Development Finance Authority Smartzone Bonds (\$4,333 unamortized discount)	11/1/2002	\$ 4,725,000	3.88%	11/01/10	80,000	-	-
			3.88%	11/01/11	80,000	80,000	192,197
			4.00%	11/01/12	180,000	180,000	187,048
			3.90%	11/01/13	240,000	240,000	178,768
			4.05%	11/01/14	305,000	305,000	167,911
			4.05%	11/01/15	325,000	325,000	155,154
			4.15%	11/01/16	340,000	340,000	141,518
			4.25%	11/01/17	355,000	355,000	126,919
			4.35%	11/01/18	375,000	375,000	111,219
			4.45%	11/01/19	395,000	395,000	94,274
			4.60%	11/01/20	400,000	400,000	76,285
			4.60%	11/01/21	255,000	255,000	61,220
			4.60%	11/01/22	265,000	265,000	49,260
			4.85%	11/01/23	280,000	280,000	36,375
			4.85%	11/01/24	295,000	295,000	22,431
			4.85%	11/01/25	315,000	315,000	7,639
					4,485,000	4,405,000	1,608,216
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 7,730,000	\$ 7,450,000	\$ 1,902,068
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 32,805,033	\$ 29,984,850	\$ 7,784,632

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.	114
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.	118
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.	124
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.	128
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.	130

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

City of Muskegon

NET ASSETS BY COMPONENT

Last Nine Fiscal Years

	December 31									June 30	
	2003	2004	2005 (a)	2006	2007	2008	2009	2010	2011		
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		
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		
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		
Total Governmental Net Assets	\$ 47,081,472	\$ 53,280,853	\$ 80,351,629	\$ 82,346,476	\$ 83,707,754	\$ 83,831,142	\$ 80,941,870	\$ 84,697,069	\$ 84,199,564		
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		
Restricted	822,559	822,559	822,559	822,559	822,559	822,559	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		
Total Business-type Activities Net Assets	\$ 39,119,373	\$ 41,079,291	\$ 44,228,791	\$ 47,174,718	\$ 48,160,348	\$ 48,474,688	\$ 48,532,442	\$ 49,408,135	\$ 50,303,338		
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		
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		
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		
Total Primary Government Net Assets	\$ 86,200,845	\$ 94,360,144	\$ 124,580,420	\$ 129,521,194	\$ 131,868,102	\$ 132,305,830	\$ 129,474,312	\$ 134,105,204	\$ 134,502,902		

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

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

City of Muskegon
CHANGES IN NET ASSETS
Last Nine Fiscal Years

	Year Ended December 31							Period Ended	Year Ended June
	2003	2004	2005	2006	2007	2008	2009	June 30	30
								2010	2011
EXPENSES									
Governmental Activities									
Public representation	\$ 887,496	\$ 866,669	\$ 885,365	\$ 904,109	\$ 925,124	\$ 986,696	\$ 923,911	\$ 445,251	\$ 854,249
Administrative services	1,227,407	1,132,229	803,783	732,715	783,713	782,362	698,022	317,873	645,585
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
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
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
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
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
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
General administration	1,601,112	1,725,225	1,608,108	1,143,963	358,225	574,955	451,851	210,117	794,115
Interest on long-term debt	223,717	193,021	170,814	206,768	343,106	324,076	288,073	139,006	272,940
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
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
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
Marina and launch ramp	325,401	351,705	343,599	332,826	392,994	347,642	310,773	150,055	292,889
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
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
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
Administrative services	292,665	314,028	311,529	306,964	287,011	257,850	271,117	129,630	263,473
Financial services	591,174	645,166	537,445	728,332	744,109	726,572	818,845	475,031	879,905
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
Public works	266,045	452,606	467,849	588,566	407,569	382,072	383,733	209,203	642,082
Highways, streets and bridges	273,893	555,018	267,689	263,423	372,133	301,955	301,840	139,009	451,473
Community and economic development	977,448	414,543	815,980	762,220	356,051	297,854	249,241	186,572	457,952
Culture and recreation	1,026,822	1,151,687	1,141,865	809,228	454,154	405,520	445,891	129,025	300,367
General administration	122,447	200,434	314,658	170,240	64,366	99,494	123,426	59,373	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
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
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
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
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
Marina and launch ramp	274,258	266,981	248,460	267,412	281,679	250,266	242,055	156,767	194,311
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
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
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)
Business-type Activities	439,780	1,765,730	2,931,447	2,283,867	775,036	165,350	33,911	855,943	871,244
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)
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
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
Franchise fees	265,532	-	286,265	285,124	297,200	304,812	321,852	178,239	362,103
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
Unrestricted investment earnings	281,492	170,094	420,595	832,300	1,247,520	730,142	185,436	104,086	193,435
Miscellaneous	109,620	68,405	70,402	64,645	88,035	160,460	226,124	51,638	432,880
Gain on sale of capital asset	62,992	70,886	300,037	81,372	1,604	323,048	123,258	65,155	25,815
Transfers	-	(142,420)	(80,000)	(540,000)	(40,000)	(40,000)	-	(3,760)	-
Total Governmental Program Revenues	19,332,598	19,101,577	20,534,150	20,918,001	21,841,630	22,433,067	19,819,464	14,413,944	20,572,063
Business-type Activities									
Unrestricted investment earnings	71,628	51,768	138,053	122,060	170,594	108,990	23,843	15,990	23,959
Gain on sale of capital asset	(88,767)	-	-	-	-	-	-	-	-
Transfers	-	142,420	80,000	540,000	40,000	40,000	-	3,760	-
Total Business-type program revenues	(17,139)	194,188	218,053	662,060	210,594	148,990	23,843	19,750	23,959
Total Primary Government program revenues	\$ 19,315,459	\$ 19,295,765	\$ 20,752,203	\$ 21,580,061	\$ 22,052,224	\$ 22,582,057	\$ 19,843,307	\$ 14,433,694	\$ 20,596,022
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)
Business-type Activities	422,641	1,959,918	3,149,600	2,945,927	985,630	314,340	57,754	875,693	895,203
Total Primary Government	\$ 10,570,908	\$ 8,160,148	\$ 7,980,777	\$ 6,565,310	\$ 2,346,908	\$ 437,728	\$ (2,831,518)	\$ 4,630,892	\$ 397,698

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

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	December 31										June 30	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (a)		
General fund												
Reserved	\$ 173,696	\$ 110,642	\$ 74,349	\$ 79,356	\$ 177,076	\$ 180,410	\$ 214,819	\$ 187,633	\$ 300,969	\$ -		
Nonspendable												
Restricted												
Assigned												
Unassigned												
Unreserved												
Total general fund	\$ 2,807,996	\$ 2,431,418	\$ 2,445,191	\$ 2,519,605	\$ 2,690,039	\$ 2,920,632	\$ 2,383,725	\$ 1,638,662	\$ 5,737,485	\$ 6,038,454	\$ 6,011,382	
All other governmental funds												
Reserved	\$ 2,309,214	\$ 1,159,364	\$ 1,187,662	\$ 2,915,106	\$ 7,044,394	\$ 4,130,995	\$ 4,382,118	\$ 3,613,858	\$ 3,887,289	\$ -		
Nonspendable												
Restricted												
Assigned												
Unassigned												
Unreserved, reported in:												
Special revenue funds	3,785,857	3,254,746	2,692,431	2,910,285	3,030,096	4,462,015	2,768,886	2,060,117	2,163,041	-		
Debt service	-	153,955	-	-	-	-	-	-	-	-		
Capital project funds	1,614,636	3,849,868	2,187,667	1,239,763	390,282	635,676	675,898	554,273	6,035	-		
Permanent funds	102,837	63,798	22,896	22,890	77,300	84,413	60,813	15,613	16,979	-		
Total all other governmental funds	\$ 7,812,544	\$ 8,481,731	\$ 6,090,656	\$ 7,088,044	\$ 10,542,072	\$ 9,313,099	\$ 7,887,715	\$ 6,243,861	\$ 6,073,344	\$ 4,914,958		

(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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	Year Ended December 31										Period Ended June 30	Year Ended June 30
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		
Revenues												
Taxes												
Intergovernmental	\$ 13,607,863	\$ 13,306,798	\$ 13,767,040	\$ 14,521,769	\$ 15,052,708	\$ 15,420,032	\$ 15,728,859	\$ 14,673,012	\$ 11,855,182	\$ 15,146,430		
Charges for services	15,473,320	18,879,071	15,448,865	15,445,949	14,703,371	12,752,363	13,012,035	12,400,408	4,785,494	11,525,749		
Other	3,010,798	3,307,607	3,437,220	3,147,066	2,938,246	2,722,894	2,463,975	2,620,372	1,338,194	2,769,204		
	3,872,459	3,629,983	3,828,223	4,134,604	3,758,956	4,618,149	3,624,579	3,177,522	1,768,895	3,461,292		
Total revenues	<u>35,964,440</u>	<u>39,123,459</u>	<u>36,481,348</u>	<u>37,249,388</u>	<u>36,453,281</u>	<u>35,513,438</u>	<u>34,829,448</u>	<u>32,871,314</u>	<u>19,747,765</u>	<u>32,902,675</u>		
Expenditures												
Public representation												
Administrative services	985,107	889,188	869,342	886,717	903,895	927,320	987,229	923,923	448,703	851,918		
Financial services	816,581	785,966	704,667	748,588	669,789	644,913	632,513	645,704	303,555	586,328		
Public safety	1,797,662	1,846,558	1,829,276	1,905,714	2,056,580	2,231,519	2,298,830	2,406,623	1,241,430	2,352,709		
Public works	11,514,151	11,439,487	12,277,677	12,624,532	13,002,233	12,902,815	13,754,394	13,567,101	6,578,735	13,087,976		
Highways, streets and bridges	2,680,695	2,731,241	2,543,512	2,661,073	2,730,415	2,768,906	2,831,177	2,860,510	1,589,090	3,079,342		
Community and economic development	8,816,305	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		
Culture and recreation	971,335	987,097	797,072	784,396	763,211	894,879	1,077,312	4,440,687	1,330,794	3,109,693		
Other governmental functions	2,610,935	2,624,275	2,259,699	2,197,276	2,190,835	2,254,117	2,394,031	2,196,186	639,852	1,197,020		
Debt service	1,798,345	1,589,572	1,708,868	1,603,292	1,139,148	350,385	562,341	438,292	200,623	1,775,128		
Principal												
Interest and issuance costs	1,345,000	1,270,000	1,335,000	1,115,000	1,189,785	1,241,921	999,148	663,371	303,466	1,345,183		
Capital outlay	316,255	230,907	201,447	166,071	271,233	324,577	310,432	282,174	136,013	267,258		
	4,721,155	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		
Total expenditure	<u>38,373,526</u>	<u>40,690,939</u>	<u>39,321,088</u>	<u>37,958,581</u>	<u>39,007,446</u>	<u>36,729,924</u>	<u>37,735,688</u>	<u>35,378,381</u>	<u>15,576,172</u>	<u>34,180,205</u>		
Excess of revenues over (under) expenditures	(2,409,086)	(1,567,480)	(2,839,740)	(709,193)	(2,554,165)	(1,216,486)	(2,906,240)	(2,507,067)	4,171,593	(1,277,530)		
Other financing sources (uses)												
Transfers in												
Transfers out	2,059,336	2,740,742	3,342,612	1,839,631	2,358,509	1,926,538	1,477,717	1,359,608	342,188	1,348,694		
Bonds issued	(2,047,491)	(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)		
Sale of capital assets	106,807	1,578,009	-	1,061,900	5,626,331	-	500,000	-	-	-		
Total other financing sources (uses)	<u>400,280</u>	<u>282,080</u>	<u>483,544</u>	<u>827,141</u>	<u>1,120,341</u>	<u>286,152</u>	<u>375,723</u>	<u>68,452</u>	<u>75,465</u>	<u>120,118</u>		
Net change in fund balances	<u>518,932</u>	<u>1,860,089</u>	<u>592,787</u>	<u>1,780,995</u>	<u>6,178,627</u>	<u>2,18,106</u>	<u>943,949</u>	<u>118,150</u>	<u>57,682</u>	<u>92,072</u>		
	<u>\$ (1,890,154)</u>	<u>\$ 292,609</u>	<u>\$ (2,246,953)</u>	<u>\$ 1,071,802</u>	<u>\$ 3,624,462</u>	<u>\$ (998,380)</u>	<u>\$ (1,962,291)</u>	<u>\$ (2,388,917)</u>	<u>\$ 4,229,275</u>	<u>\$ (1,185,458)</u>		
Debt service as a percentage of noncapital expenditures	4.94%	4.15%	4.63%	3.74%	4.44%	5.05%	4.06%	2.97%	3.01%	5.22%		

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

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

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

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

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

City of Muskegon

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Ad Valorem Assessment Roll										Industrial and Commercial Facilities Assessment Roll									
Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Taxable Valuation	Total City	Taxable Value As a Percent Actual					
2001	\$ 259,245,700	\$ 160,831	\$ 117,380,175	\$ 104,812,046	\$ 481,598,752	\$ 150,081,900	\$ 631,680,652	\$ 15,928,671	\$ 61,421,700	\$ -	\$ 77,350,371	\$ 709,031,023	10,0792	87.40%					
2002	277,504,213	163,166	129,199,142	103,473,256	510,339,777	125,589,450	635,929,227	10,786,400	61,521,500	-	72,307,900	708,237,127	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	125,046,550	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%					

Assessed and Equalized Valuation of Property

Ad Valorem Assessment Roll										Industrial and Commercial Facilities Assessment Roll									
Year	Residential	Agriculture	Commercial	Industrial	Total		Total	Industrial		Commercial		Total	Total Assessed Valuation	Estimated Actual Value					
					Real Property	Personal Property		Real Property	Personal Property	Real Property	Personal Property				IFT and CFT				
2001	\$ 336,150,700	\$ 173,600	\$ 136,833,700	\$ 109,888,900	\$ 583,046,900	\$ 150,081,900	\$ 733,128,800	\$ 16,676,500	\$ 61,421,700	\$ -	\$ 78,098,200	\$ 811,227,000	\$ 1,622,454,000						
2002	358,727,850	173,600	152,324,900	110,440,500	621,666,850	125,597,200	747,264,050	11,272,200	61,521,500	-	72,793,700	820,057,750	1,640,115,500						
2003	383,845,613	181,300	144,310,700	110,600,499	638,938,112	124,840,700	763,778,812	9,333,500	51,183,000	-	60,516,500	824,295,312	1,648,590,824						
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						

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, 2011

	6/30/2011			12/31/2001		
	Taxpayer	Taxable Valuation	Rank	Total Taxable Valuation	Rank	Percent of Total Taxable Valuation
	Consumers Energy	\$ 83,566,362	1	\$ 75,994,362	1	10.5%
	ADAC Plastics Inc	7,312,700	2	-		0.0%
	ESCO Company	6,793,300	3	6,269,963	10	0.9%
	GE Aviation	6,695,200	4	7,886,862	5	1.1%
	DTE Energy (formerly MichCon)	6,387,800	5	9,889,104	4	1.4%
	Sappi/S.D. Warren Company	5,786,779	6	61,860,841	2	8.6%
	Muskegon SC Holdings LLC	4,503,400	7	-		0.0%
	Michigan Electric Transmission	4,381,900	8	-		0.0%
	Glen Oaks Apartments LLC	4,280,600	9	-		0.0%
	Faram Muskegon LLC	3,927,000	10	-		0.0%
	Anglo-American Clays Corporation	-		15,005,200	3	2.1%
	Terrace Partners LLC	-		7,514,367	7	1.0%
	Brunswick Corp	-		7,491,320	8	1.0%
	Lorin Industries	-		7,805,275	6	1.1%
	Neway Anchorlok International	-		6,726,295	9	0.9%
	Total - 10 Largest	133,635,041		206,443,589		28.6%
	Total - All Other	569,968,057		514,953,537		71.4%
		\$ 703,603,098		\$ 721,397,126		100.0%

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

City of Muskegon

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

City-Wide Rates

Year	Operating	Promotion	Sanitation	Total City	Library District
2001	7.0000	0.0792	3.0000	10.0792	2.4000
2002	7.0000	0.0786	3.0000	10.0786	2.4000
2003	7.5000	0.0774	2.5000	10.0774	2.4000
2004	8.5000	0.0768	2.5000	11.0768	2.4000
2005	8.5000	0.0755	2.5000	11.0755	2.4000
2006	8.5000	0.0732	2.5000	11.0732	2.4000
2007	8.5000	0.0685	2.5000	11.0685	2.4000
2008	8.5000	0.0682	2.5000	11.0682	2.4000
2009	8.9000	0.0680	2.1000	11.0680	2.4000
2010	9.5000	0.0680	2.5000	12.0680	2.4000

Overlapping - County-Wide Rates

Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College
2001	6.5799	0.4640	2.3202	-	2.2233
2002	6.6957	0.4599	2.2997	1.0000	2.2037
2003	6.7957	0.4597	2.2983	1.0000	2.2037
2004	6.7957	0.4597	2.2983	1.0000	2.2037
2005	6.7757	0.4597	2.2983	1.0000	2.2037
2006	6.7557	0.4597	2.2987	0.9996	2.2037
2007	6.7357	0.4597	2.2987	0.9996	2.2037
2008	6.6957	0.4597	2.2987	0.9996	2.2037
2009	6.6957	0.4597	2.2987	0.9996	2.2037
2010	6.6957	0.4597	2.2987	0.9996	2.2037

Overlapping - School District

Year	Operating	Debt	Total	State Education
2001	18.0000	7.0000	25.0000	6.0000
2002	18.0000	7.0000	25.0000	6.0000
2003	18.0000	7.0000	25.0000	5.0000
2004	18.0000	7.0000	25.0000	6.0000
2005	18.0000	7.0000	25.0000	6.0000
2006	18.0000	7.0000	25.0000	6.0000
2007	18.0000	7.0000	25.0000	6.0000
2008	18.0000	5.5000	23.5000	6.0000
2009	18.0000	5.6000	23.6000	6.0000
2010	18.0000	5.7500	23.7500	6.0000

Grand Total

Homestead	Non-Homestead
37.0666	55.0666
38.1376	56.1376
37.2348	55.2348
39.2342	57.2342
39.2129	57.2129
39.1906	57.1906
39.1659	57.1659
37.6256	55.6256
37.7254	55.7254
38.8754	56.8754

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

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

SOURCE: City of Muskegon Treasurer's Office

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

Most recent Year and Ten Years Previous

Year Ended June 30, 2011

Taxable Income per Return <i>Individual and Joint Returns</i>	# 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	1,211	6%	\$ 879,100	\$ 8,791	0%
\$2,501-\$7,500	779	4%	5,882,700	58,827	1%
\$7,501-\$25,000	1,834	9%	43,197,400	431,974	7%
\$25,001-\$50,000	1,487	8%	81,324,900	813,249	12%
\$50,001-\$100,000	850	4%	85,743,500	857,435	13%
More than \$100,000	165	1%	39,592,200	395,922	6%
Subtotal	6,326	32%	\$ 256,619,800	\$ 2,566,198	39%

Year Ended December 31, 2001

	# of Returns	% of Total Returns Filed	Total Taxable		% of Total Tax Dollars
			Income	Tax Dollars	
	1,179	5%	\$ 1,029,474	\$ 10,295	0%
	1,169	5%	6,827,297	68,273	1%
	2,704	10%	52,426,935	524,269	7%
	2,394	9%	101,907,814	1,019,078	14%
	986	4%	88,566,998	885,670	13%
	142	1%	40,253,382	402,534	6%
	8,574	33%	\$ 291,011,900	\$ 2,910,119	41%

Non-Residents Taxpayers:

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

\$2,500 or less	1,770	9%	\$ 1,000,800	\$ 7,246	0%
\$2,501-\$7,500	1,122	6%	5,458,800	39,523	1%
\$7,501-\$25,000	2,684	14%	43,704,000	316,426	5%
\$25,001-\$50,000	3,219	16%	117,950,960	853,989	13%
\$50,001-\$100,000	2,229	11%	148,571,800	1,075,298	16%
More than \$100,000	588	3%	116,569,000	843,982	13%
Subtotal	11,612	59%	\$ 433,255,360	\$ 3,136,464	48%

All Other Returns

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

Subtotal	1,750	9%	\$ 897,091		14%
Total	19,688	100%	\$ 6,599,753		100%

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

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

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities					Business-Type Activities					Percent of Personal Income	Per Capita
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Governmental Activities	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business-Type Activities	Total Primary Government		
2002	\$ 3,735,000	\$ 1,835,000	\$ 1,276,900	\$ 6,846,900	\$ 6,846,900	\$ 9,750,000	\$ 7,038,014	\$ -	\$ 16,788,014	\$ 23,634,914	3.8%	\$ 589
2003	4,565,000	1,460,000	1,126,900	7,151,900	7,151,900	9,345,000	5,886,923	-	15,231,923	22,383,823	3.6%	562
2004	3,700,000	1,140,000	976,900	5,816,900	5,816,900	8,925,000	4,779,656	8,483,766	22,188,422	28,005,322	4.4%	703
2005	3,615,824	865,000	1,282,976	5,763,800	5,763,800	8,490,000	3,606,017	13,900,000	25,996,017	31,759,817	4.8%	797
2006	8,246,039	615,000	1,356,900	10,217,939	10,217,939	8,035,000	2,454,101	13,335,000	23,824,101	34,042,040	5.0%	855
2007	7,444,118	395,000	1,136,900	8,976,018	8,976,018	7,565,000	1,221,207	12,760,000	21,546,207	30,522,225	4.5%	766
2008	6,844,970	215,000	1,416,900	8,476,870	8,476,870	7,075,000	-	12,170,000	19,245,000	27,721,870	4.1%	696
2009	6,623,499	70,000	1,120,000	7,813,499	7,813,499	6,565,000	-	11,570,000	18,135,000	25,948,499	3.8%	659
2010*	6,444,605	-	1,065,428	7,510,033	7,510,033	5,995,000	-	11,570,000	17,565,000	25,075,033	3.7%	639
2011	5,920,000	-	244,850	6,164,850	6,164,850	5,415,000	-	10,955,000	16,370,000	22,534,850	3.3%	587

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

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

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

City of Muskegon

DIRECT AND OVERLAPPING DEBT

June 30, 2011

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	Debt Supported by City General Revenues
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 16,370,000	\$ 16,370,000	\$ -
Special Assessment Bonds	-	-	-
Capital Improvement Bonds	5,920,000	-	5,920,000
Intergovernmental Bonds	244,850	-	244,850
Act 99 Installment Purchase		-	-
Component Unit Debt:			
Downtown Development Authority	3,045,000	3,045,000	-
Local Development Finance Authority	4,405,000	4,405,000	-
Total City Direct Debt	\$ 29,984,850	\$ 23,820,000	\$ 6,164,850
	Gross	City Share as Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 31,620,000	94.43%	\$ 29,858,766
Orchard View School District	46,225,659	26.22%	12,120,368
Reeths Puffer School District	63,789,840	10.97%	6,997,745
Muskegon Intermediate School District	-	15.44%	-
Muskegon County	26,445,000	15.46%	4,088,397
Muskegon Community College	14,090,000	15.46%	2,178,314
Total Overlapping Debt	\$ 182,170,499		55,243,590
Total City Direct and Overlapping Debt			\$ 61,408,440

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

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

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

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Debt Limit										
	\$ 74,726,405	\$ 76,377,881	\$ 75,663,530	\$ 76,252,738	\$ 78,773,640	\$ 84,174,359	\$ 85,933,940	\$ 82,198,965	\$ 82,198,965	\$ 78,308,925
Total net debt applicable to limit	11,066,900	9,726,900	9,191,900	9,918,800	16,142,939	15,591,018	15,481,870	14,778,499	14,435,033	12,929,850
Legal debt margin	\$ 63,659,505	\$ 66,650,981	\$ 66,471,630	\$ 66,333,938	\$ 62,630,701	\$ 68,583,341	\$ 70,452,070	\$ 67,420,466	\$ 67,763,932	\$ 65,379,075
Total net debt applicable to the limit as a percentage of debt limit	14.81%	12.74%	12.15%	13.01%	20.49%	18.52%	18.02%	17.98%	17.56%	16.51%

Legal Debt Margin Calculation for 2011:

Assessed Valuation:	
Legal Debt Limit (10%)	\$ 783,089,250
Total Indebtedness:	
Debt not Subject to Limitation:	\$ 29,984,850
Paid by Special Assessment	(685,000)
Revenue Bonds	(16,370,000)
Debt Subject to Limitation	12,929,850
Legal Debt Margin	\$ 65,379,075

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

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

City of Muskegon
REVENUE BOND COVERAGE
Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)		Direct Operating Expenses (b)		Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
						Principal	Interest	Total	
2002	\$	4,051,015	\$	3,030,959	\$ 1,020,056	\$ 390,000	\$ 453,666	\$ 843,666	1.21
2003		4,183,015		3,539,690	643,325	405,000	417,559	822,559	0.78
2004		5,016,267		3,186,067	1,830,200	420,000	411,867	831,867	2.20
2005		7,017,844		3,197,232	3,820,612	435,000	418,549	853,549	4.48
2006		6,424,971		3,172,882	3,252,089	1,020,000	662,774	1,682,774	1.93
2007		6,705,739		3,404,649	3,301,090	1,045,000	632,036	1,677,036	1.97
2008		6,336,135		3,407,903	2,928,232	1,080,000	600,377	1,680,377	1.74
2009		5,906,313		3,498,263	2,408,050	1,110,000	567,462	1,677,462	1.44
2010*		2,904,735		1,575,275	1,329,460	535,000	271,522	806,522	1.65
2011		5,467,785		3,294,530	2,173,255	1,195,000	451,323	1,646,323	1.32

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	
2002	\$	4,039,448	\$	2,726,975	\$ 1,312,473	\$ 458,918	\$ 137,622	\$ 596,540	2.20
2003		4,077,482		2,649,454	1,428,028	473,329	132,214	605,543	2.36
2004		4,096,412		3,038,939	1,057,473	455,179	110,520	565,699	1.87
2005		4,182,115		3,128,119	1,053,996	522,956	114,388	637,344	1.65
2006		4,842,901		4,270,296	572,605	511,626	63,233	574,859	1.00
2007		5,213,140		4,435,211	777,929	506,822	25,221	532,043	1.46
2008		5,338,647		4,979,343	359,304	546,278	12,550	558,828	0.64
2009					No System Indebtedness				
2010*					No System Indebtedness				
2011					No System Indebtedness				

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

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

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

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

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

City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School Enrollment	Building Permits		Unemployment
						Number	Value	
2002	40,105	\$ 616,864,181	\$ 15,381	32.3	6,603	1,008	\$ 39,705,174	12.1%
2003	39,825	627,871,373	15,766	32.3	6,327	1,061	21,369,545	13.9%
2004	39,825	643,568,157	16,160	32.3	6,088	1,152	37,963,075	11.1%
2005	39,825	659,657,361	16,564	32.3	5,862	966	30,041,025	9.0%
2006	39,825	676,148,795	16,978	32.3	5,625	1,063	27,328,144	8.6%
2007	39,825	693,052,515	17,402	32.3	5,534	941	36,129,064	9.5%
2008	39,825	710,378,828	17,838	32.3	5,361	946	23,001,998	11.5%
2009	39,401	720,386,117	18,283	32.8	5,931	909	18,417,289	16.2%
2010	39,259	735,734,614	18,741	32.8	5,931	374	11,900,915	17.8%
2011	38,401	737,646,617	19,209	34.1	5,162	835	18,829,825	13.8%

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	2011				2002			
	Employees	Rank	Percentage of total City employment		Employees	Rank	Percentage of total City employment	
Mercy General Health Partners	3,532	1	23.9%		1,300	1	7.6%	
County of Muskegon	1,211	2	8.2%		650	4	3.8%	
State of Michigan	1,064	3	7.2%		-	-	0.0%	
Muskegon Public Schools	931	4	6.3%		555	7	3.3%	
ADAC Plastics	500	5	3.4%		480	8	2.8%	
Johnson Technology	425	6	2.9%		560	6	3.3%	
Frontier	350	8	2.4%		350	10	2.1%	
City of Muskegon	243	9	1.6%		-	-	0.0%	
Michigan Steel	208	10	1.4%		-	-	0.0%	
Baker College	355	7	2.4%		-	-	0.0%	
Hackley Hospital	-	-	0.0%		1,000	2	5.9%	
Brunswick	-	-	0.0%		400	9	2.3%	
Holland Neway	-	-	0.0%		565	5	3.3%	
Sappi/S.D. Warren Company	-	-	0.0%		740	3	4.3%	

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	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Administration	1.50	1.50	1.50	1.50	1.50	1.50	1.50	-	-	0.40
Affirmative Action	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.10
Cemetaries	3.52	3.52	3.52	3.25	3.00	3.25	3.25	3.25	2.50	2.20
City Assessors Office	-	-	-	-	-	-	-	-	-	-
City Clerk & Elections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	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	1.25	1.20	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.55
City Manager's Office	2.75	1.75	1.75	1.75	1.75	1.75	1.75	3.25	2.25	2.25
City Treasurer's Office	6.00	6.00	5.00	5.00	5.00	4.00	5.00	5.00	5.00	5.00
Civil Service	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00
Community Event Support	0.20	0.20	-	-	-	-	-	-	-	-
Environmental Services	4.00	4.00	3.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Farmers Market	0.12	0.12	0.12	-	-	-	-	0.05	0.05	0.05
Finance Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00
Fire	44.00	43.00	41.00	40.00	38.00	38.00	38.00	38.00	36.00	33.00
Fire Safety Inspections	12.00	13.00	12.00	10.00	12.00	12.00	12.00	12.00	9.00	8.00
Forestry	2.18	1.93	0.93	-	-	-	-	-	-	-
General Recreation	0.78	2.24	1.24	1.00	1.17	1.33	1.66	1.66	2.00	-
Income Tax Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Information Systems	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Inner City Recreation	1.46	-	-	-	-	-	-	-	-	-
Parking	0.30	0.30	-	-	-	-	-	-	-	-
Parks	11.53	10.53	9.68	8.48	8.25	8.15	8.15	7.99	7.15	6.00
Planning, Zoning & Economic Development	7.50	7.50	6.50	6.00	6.00	6.00	6.00	6.00	5.00	4.00
Police	102.00	96.00	94.00	94.00	94.00	94.00	94.00	94.00	88.00	88.00
Sanitation	1.25	1.25	1.10	1.10	1.00	1.00	1.00	1.00	-	0.30
MVH-Major Streets	14.70	15.30	15.45	15.25	16.00	17.75	15.75	13.75	12.00	12.00
MVH-Local Streets	7.20	7.20	7.00	7.00	7.00	7.00	6.00	8.00	7.00	7.00
MVH-State Trunklines	1.60	1.60	2.00	2.00	2.00	-	-	-	-	-
Street Lighting	0.10	-	-	-	-	-	-	-	-	-
Walker Arena	0.12	0.12	0.12	-	-	-	-	-	-	-
Community Development	5.00	5.00	5.00	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	1.00	0.25	0.25
Lead Program	-	-	-	-	-	-	-	-	0.75	0.75
Sewer Maintenance	14.40	15.15	14.55	15.05	16.00	16.20	15.20	13.20	10.20	10.20
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Water Maintenance	15.65	15.65	15.15	14.65	13.00	12.50	13.50	15.40	12.40	12.40
Hartshorn Marina Fund	0.79	0.79	0.79	0.67	0.73	0.67	0.34	0.05	0.05	0.05
Public Service Building	3.30	3.30	3.65	3.85	3.45	3.45	3.45	3.70	8.95	8.05
Engineering	9.35	9.40	7.70	7.70	7.45	7.45	7.45	7.45	5.45	4.95
Equipment	7.70	7.70	8.00	8.00	8.95	8.25	8.25	8.50	7.25	6.25
	315.00	308.00	294.00	284.00	284.00	282.00	280.00	280.00	256.00	244.00

* 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	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Administrative Services										
Elections										
Number of registered voters	23,931	23,904	25,261	25,918	26,028	26,345	27,678	26,136	26,136	26,330
Number of votes cast:										
Last general election	8,916	8,916	14,169	14,169	10,410	10,410	15,271	15,271	15,271	8,106
Last city election	3,840	4,325	4,325	4,022	4,022	1,101	1,101	2,254	2,254	8,106
Percentage of registered voters voting:										
Last general election	37%	37%	56%	55%	40%	40%	55%	58%	58%	31%
Last city election	16%	18%	17%	16%	15%	4%	4%	9%	9%	31%
Financial Services										
Property Tax Bills										
Income Tax Returns	15,586	15,428	15,403	15,404	15,354	15,376	15,350	15,435	-	15,351
Paper Check Issued to Vendors	25,135	25,043	24,378	23,884	23,493	23,141	22,598	21,071	19,963	19,888
Electronic Payments to Vendors	4,012	3,784	3,405	3,205	3,248	3,347	3,346	3,113	1,486	2,986
	651	746	752	828	800	772	763	963	450	884
Public Safety										
Fire Protection										
Number of firefighter and officer positions	44	42	41	41	41	41	41	37	37	37
Number of emergency calls	3,878	3,656	4,116	4,206	4,092	4,171	4,298	4,220	2,062	4,402
Police Protection										
Number of sworn officer positions	85	83	83	83	84	84	84	79	79	79
Part I (Major) Crimes	3,504	2,971	3,360	3,303	3,495	2,997	3,107	3,071	1,305	2,859
Public Works										
Refuse Collected (Tons per Year)	11,420	11,780	11,925	11,074	11,192	10,375	10,401	10,526	6,042	12,703
Recyclables Collected (Tons per Year)	808	775	779	588	559	629	626	309	-	-
Water & Sewer										
Number of consumers	14,917	14,917	14,917	14,455	14,412	14,364	13,131	12,987	12,966	13,037
Average daily water consumption (GPD)	9,453,000	9,453,000	8,870,000	9,582,000	8,998,000	9,314,000	8,879,000	7,976,000	7,163,000	8,417,000
Water main breaks repaired	12	19	10	5	13	21	34	17	6	12
Sewer flows (Millions Gallons per Year)	1,477	1,387	1,475	1,700	2,040	1,945	2,181	1,979	965	1,625
Sewer Service Calls	661	624	568	638	605	598	533	508	263	591

* 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	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Public Safety										
Fire Protection										
Number of stations	3	3	3	3	3	3	3	3	3	3
Police Protection										
Number of stations	1	1	1	1	1	1	1	1	1	1
Highways, Streets and Bridges										
Miles of Streets	197.39	197.96	196.95	196.95	197.48	197.79	197.79	196.95	196.95	196.95
Number of streetlights	3,114	3,123	3,111	3,159	3,159	3,134	3,134	3,192	3,125	3,065
Culture and Recreation										
Number of parks (acres)	612	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
Sewer										
Sanitary sewers (miles)	175.33	175.33	178.02	179.41	175.74	177.04	177.04	177.04	177.04	177.04
Storm sewers (miles)	178.57	178.57	178.61	179.23	180.48	183.25	183.60	184.35	184.35	184.35
Water										
Water mains (miles)	193.09	193.66	194.14	194.14	194.15	195.63	195.58	195.69	195.69	195.69

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

SOURCE: City of Muskegon Departments

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

October 21, 2011

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, 2011 and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 certain 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 2011-1**.

City Commission
October 21, 2011
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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 21, 2011

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, 2011. 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, 2011.

City Commission
October 21, 2011
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Internal Control Over Compliance

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

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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Responses, as **Finding 2011-2**. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2011	Notes
<i>U.S. Department of Housing and Urban Development</i>							
Direct programs							
CDBG - Entitlement Cluster							
Community Development Block Grant	14.218						
B-09-MC-26-0026		\$ 1,001,885	\$ 24,582	\$ 24,582	\$ -	\$ -	
B-10-MC-26-0026		1,086,413	143,898	793,388	820,592	171,102	
Program Income		68,384	-	68,384	68,384	-	
Total Community Development Block Grant		2,156,682	168,480	886,354	888,976	171,102	4
ARRA - Community Development Block Grant - Recovery							
B-09-MY-26-0026	14.253	267,182	118,277	219,699	101,422	-	4
Total CDBG - Entitlement Cluster		2,423,864	286,757	1,106,053	990,398	171,102	
Home Investment Partnership Program							
M-09-MC-26-0215	14.239	322,469	70,016	70,016	-	-	
M-10-MC-26-0215		320,710	-	122,905	139,524	16,619	
Program Income		82,114	6,884	82,114	75,230	-	
Total Home Investment Partnership Program		725,293	76,900	275,035	214,754	16,619	
Lead-Based Paint Hazard Control in Privately-Owned Housing							
FR-5100-N-20A	14.900	2,079,492	938	938	-	-	
Program Income		42,640	-	42,640	42,640	-	
Total Lead-Based Paint Hazard Control in Privately-Owned Housing		2,122,132	938	43,578	42,640	-	
Total direct programs		5,271,289	364,595	1,424,666	1,247,792	187,721	
Passed through Michigan Department of Housing Development Authority							
Community Development Block Grant	14.218						
Neighborhood Stabilization Program							
NSP-2008-0280-ENT		1,450,000	326,655	892,001	919,285	353,939	
Program Income		101,197	-	97,279	101,197	3,918	
Total Neighborhood Stabilization Program		1,551,197	326,655	989,280	1,020,482	357,857	4
Total U.S. Department of Housing and Urban Development		6,822,486	691,250	2,413,946	2,268,274	545,578	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2011	Notes
<i>U.S. Department of Justice</i>							
Direct programs							
Bulletproof Vest Partnership Grant	16.607						
2007 Grant		\$ 7,788	\$ 53	\$ 53	\$ -	\$ -	
2008 Grant		5,563	5,479	5,561	82	-	
2009 Grant		4,851	-	2,962	2,962	-	
		18,202	5,532	8,576	3,044	-	
Justice Assistance Grant	16.738						
2009-DJ-BX-0692		81,109	-	5,329	5,329	-	
2010-DJ-BX-0887		72,866	-	46,759	46,759	-	
		153,975	-	52,088	52,088	-	
Total direct programs		172,177	5,532	60,664	55,132	-	
Passed through Ottawa County							
WEMET Multi-Jurisdictional Drug Enforcement CO-OP	16.738						
70834-210B		36,799	9,130	10,484	1,354	-	
70834-311B		34,911	-	28,638	34,911	6,273	
		71,710	9,130	39,122	36,265	6,273	
Passed through Muskegon County							
ARRA - Justice Assistance Grant	16.804						
2009-SB-B9-1824		218,169	3,536	46,960	57,860	14,436	
Total U.S. Department of Justice		462,056	18,198	146,746	149,257	20,709	
<i>U.S. Department of Energy</i>							
Direct programs							
Energy Efficiency and Conservation Block Grant	81.128						
041714125		181,600	(162,729)	-	162,729	-	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2010	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2011	Notes
<i>U.S. Department of Homeland Security</i>							
Direct programs							
Assistance to Firefighters	97.044	\$ 29,815	\$ -	\$ 29,815	\$ 29,815	\$ -	
EMW-2009-FO-09926							
Fire Prevention and Safety	97.083	13,770	-	13,770	13,770	-	
EMW-2007-FP-01502		9,000	9,000	9,000	-	-	
EMW-2009-FP-00389		22,770	9,000	22,770	13,770	-	
Total U.S. Department of Homeland Security		52,585	9,000	52,585	43,585	-	
TOTAL FEDERAL ASSISTANCE		\$ 7,518,727	\$ 555,719	\$ 2,613,277	\$ 2,623,845	\$ 566,287	

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, 2011

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. The following is a reconciliation of federal revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances of the City of Muskegon financial statements for the year ended June 30, 2011 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements	
General Fund	\$ 192,842
Major Street and Trunkline Fund	1,457,137
Other governmental funds	2,143,552
	<u>3,793,531</u>
Plus program income	287,451
Less MDOT contracted projects as shown below	<u>(1,457,137)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 2,623,845</u></u>

3. 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, 2011, the federal aid received and expended by the City was \$1,457,137 for contracted projects as shown below. Contracted projects are defined as projects performed by private contractors and paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out.

<i>U.S Department of Transportation, Federal Highway Administration (contracted projects)</i>			
	<u>Federal CFDA number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
Passed through the Michigan Department of Transportation			
Highway Planning and Construction Program	20.205		
Proj STP 1061(334) Fed Item HH6583 Contract 10-5473		\$ 495,500	\$ 495,500
Proj STP 1061 (321) Fed Item HH6430 Contract 10-5305		310,500	310,500
Proj ARRA 1061(349) Fed Item JJ49292 Contract 10-5654		102,632	102,632
Proj STP 0761 (011) Fed Item HH4997 Contract 07-5131		3,502	3,502
Proj CMG 0761 (024) Fed Item RR5822 Contract 07-5379		125	125
Proj CMG 0761 (025) Fed Item JJ2804 Contract 07-5379		957	957
Proj CMG 0961 (127) Fed Item JJ3202 Contract 09-5110		29,338	29,338
Proj STP 1061(323) Fed Item RR7175 Contract 10-5473		303,583	303,583
Proj STP 1061(348) Fed Item RR7391 Contract 10-5320		211,000	211,000
Total U.S. Department of Transportation, Federal Highway Administration (contracted projects)		<u>\$ 1,457,137</u>	<u>\$ 1,457,137</u>

4. Community Development Block Grant cluster

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

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? X yes none reported
2. Type of auditors' report issued on compliance for major programs: **Unqualified**
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no
4. Identification of major programs:

CFDA Number(s)

Name of Federal Program/Cluster

U.S. Department of Housing and Urban Development

14.218 and 14.253

• CDBG Entitlement Grant Cluster

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, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1: 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: Several material audit adjustments were required to correct general ledger balances at year-end.

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 this finding and will implement a better review process to ensure better year-end accuracy. Several of the needed adjustments arose from staff reductions/turnover and resulting unfamiliarity with year-end procedures.

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2011

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

Criteria: Per OMB Circular A-133 §____.105 Definitions, internal control is a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

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

Context: Eight of eighteen files tested for eligibility lacked documented review and approval. However, the auditor found no instances of individuals not being eligible for participation in the program.

Cause: Turnover in the Community and Neighborhood Services Department caused this control procedure to be overlooked.

Effect: The lack of documented review and approval could allow errors in eligibility determination to go undetected.

Questioned Costs: None.

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

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding. Documented review and approval procedures will be implemented for the CDBG Entitlement Grant cluster eligibility function.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 21, 2011

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

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, 2010 dated November 5, 2010.

SECTION II – FINANCIAL STATEMENT FINDINGS

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Housing and Urban Development

Finding 2010-1: CDBG Entitlement Grant Cluster

CFDA: 14.218 and 14.253

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

Award Year End: June 30, 2010

Home Investment Partnership

CFDA: 14.239

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

Award Year End: June 30, 2010

Specific Requirement: Allowable Costs/Cost Principles

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

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

Current Status: This recommendation was implemented during the year ended June 30, 2011. **No** similar finding was reported during the single audit for the year ended June 30, 2011.

Sincerely,



Timothy J. Paul
Finance Director

CORRECTIVE ACTION PLAN

October 21, 2011

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

City of Muskegon respectfully submits the following Corrective Action Plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:

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

Audit period: June 30, 2011

The findings from the Schedule of Findings and Responses for the year ended June 30, 2011 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 is making changes to its closing procedures to better ensure that accounts are properly adjusted in future year-end closings.

U.S. Department of Housing and Urban Development
October 21, 2011
Page 2

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

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

Action Taken: The City is changing its procedures to ensure that reviews of eligibility are properly documented.

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,

A handwritten signature in dark ink, appearing to read 'Timothy J. Paul', is written over a light gray circular background.

Timothy J. Paul
Finance Director