



**CITY OF NORTON SHORES, MICHIGAN**

**FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED JUNE 30, 2016*



*Vredeveld Haefner LLC*

*CPA's*

# CITY OF NORTON SHORES

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## INDEPENDENT AUDITORS' REPORT

November 14, 2016

Honorable Mayor and Members of the City Council  
City of Norton Shores, Michigan

### **Report on the Financial Statements**

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 Norton Shores, Michigan, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 41 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Urodeuxeld Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Norton Shores (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

### Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2016 fiscal year as follows:

- Investment income occurred due to positive market value fluctuations.
- State of Michigan eliminated personal property tax on equipment valued under \$37,000, resulting in a decrease in anticipated property tax revenue.
- The City finalized Phase I and II of Black Lake Park, providing trails and lookouts to be used by all residents.
- Building permit revenue has remained at pre-housing market crash levels.
- The City contributed an additional \$500,000 into the pension plan to help offset the increase in the net pension liability due to changes in the valuation assumptions made by the actuary.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, culture and recreation, community development, and debt service. The business-type activities of the City include the water and sewer utility.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Tax Increment Financing Authority (TIFA) and Brownfield Redevelopment Authority for which the City is financially accountable. Information for these component units are reported separately from the financial information presented for the primary government itself.

**Fund financial statements** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, major streets, and capital improvements funds which are considered major funds. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. Budgetary comparison statements have been provided for the general and special revenue funds to demonstrate legal compliance.

**Proprietary funds** The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operation. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for its equipment maintenance and replacement services. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer fund, which is considered to be a major fund of the City.

**Fiduciary funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension and other post-employment benefits information and major fund budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

## Government-wide Financial Analysis

**Statement of Net Position** As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$49,382,297 at the close of the most recent fiscal year. The following chart illustrates the composition of net position at June 30:

### Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and other assets	\$ 8,976,672	\$ 9,319,900	\$13,820,464	\$12,611,877	\$ 22,797,136	\$ 21,931,777
Capital assets	31,862,895	28,930,039	30,450,717	30,843,598	62,313,612	59,773,637
<b>Total assets</b>	<b>40,839,567</b>	<b>38,249,939</b>	<b>44,271,181</b>	<b>43,455,475</b>	<b>85,110,748</b>	<b>81,705,414</b>
<b>Deferred outflows</b>	<b>4,298,601</b>	<b>1,046,378</b>	<b>506,990</b>	<b>123,413</b>	<b>4,805,591</b>	<b>1,169,791</b>
<b>Liabilities</b>						
Current liabilities	790,264	719,408	843,543	1,106,058	1,633,807	1,825,466
Long-term liabilities	34,921,153	29,369,627	3,979,082	3,685,644	38,900,235	33,055,271
<b>Total liabilities</b>	<b>35,711,417</b>	<b>30,089,035</b>	<b>4,822,625</b>	<b>4,791,702</b>	<b>40,534,042</b>	<b>34,880,737</b>
<b>Net position</b>						
Net investment in capital assets	31,096,345	28,088,627	29,535,327	29,672,636	60,631,672	57,761,263
Restricted	3,286,963	4,156,548	950	950	3,287,913	4,157,498
Unrestricted (deficit)	(24,956,557)	(23,037,893)	10,419,269	9,113,600	(14,537,288)	(13,924,293)
<b>Total net position</b>	<b>\$ 9,426,751</b>	<b>\$ 9,207,282</b>	<b>\$39,955,546</b>	<b>\$38,787,186</b>	<b>\$ 49,382,297</b>	<b>\$ 47,994,468</b>

The City's unrestricted net position in governmental activities is in a deficit position as a result of recording the net pension liability as required by current accounting standards.

A portion of the City's net position reflects an unrestricted deficit which is not available for future operations; by far the largest portion of the City's net position is its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of \$3,287,913 represents resources that are subject to external restrictions on how they may be used.

**Statement of Activities** The City's total revenue for the fiscal year ended June 30, 2016, was \$27,784,980 while total cost of all programs and services was \$26,397,151. This results in an increase in net position of \$1,387,829. The following table presents a summary of the changes in net position for the years ended June 30:

### Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues						
Charges for services	\$3,039,248	\$3,130,183	\$7,355,059	\$7,258,643	\$10,394,307	\$10,388,826
Operating grants and contributions	2,279,235	2,055,751	210,230	104,821	2,489,465	2,160,572
Capital grants and contributions	1,425,249	632,696	609,776	1,036,793	2,035,025	1,669,489
General revenues						
Property taxes	9,172,291	8,435,765	-	-	9,172,291	8,435,765
State shared revenues	1,906,311	1,906,917	-	-	1,906,311	1,906,917
Investment earnings	636,929	420,874	830,404	726,147	1,467,333	1,147,021
Other	215,577	176,422	104,671	30,789	320,248	207,211
<b>Total revenues</b>	<b>18,674,840</b>	<b>16,758,608</b>	<b>9,110,140</b>	<b>9,157,193</b>	<b>27,784,980</b>	<b>25,915,801</b>
<b>Expenses</b>						
General government	4,163,959	4,392,936	-	-	4,163,959	4,392,936
Public safety	8,464,800	8,260,348	-	-	8,464,800	8,260,348
Highways and streets	3,322,948	3,328,718	-	-	3,322,948	3,328,718
Sanitation	727,782	703,245	-	-	727,782	703,245
Culture and recreation	894,098	817,732	-	-	894,098	817,732
Administration	659,325	676,007	-	-	659,325	676,007
Community development	200,835	85,745	-	-	200,835	85,745
Interest on long-term debt	21,624	11,311	-	-	21,624	11,311
Water and sewer	-	-	7,941,780	8,629,637	7,941,780	8,629,637
<b>Total expenses</b>	<b>18,455,371</b>	<b>18,276,042</b>	<b>7,941,780</b>	<b>8,629,637</b>	<b>26,397,151</b>	<b>26,905,679</b>
<b>Increase (decrease) in net position</b>	<b>219,469</b>	<b>(1,517,434)</b>	<b>1,168,360</b>	<b>527,556</b>	<b>1,387,829</b>	<b>(989,878)</b>
<b>Net position – beginning</b>	<b>9,207,282</b>	<b>10,724,716</b>	<b>38,787,186</b>	<b>38,259,630</b>	<b>47,994,468</b>	<b>48,984,346</b>
<b>Net position – ending</b>	<b>\$9,426,751</b>	<b>\$9,207,282</b>	<b>\$39,955,546</b>	<b>\$38,787,186</b>	<b>\$49,382,297</b>	<b>\$47,994,468</b>

**Governmental Activities** The preceding table shows that the governmental activities increased the City's net position by \$219,469 during this fiscal year. The increase is primarily the result of an increase in the City's property tax revenue.

**Business-type Activities** Business-type activities increased the City's net position by \$1,168,360 during the year. This increase is primarily the result of capital grants received to cover a portion of construction activities, a decrease in interest expense, as well as positive investment returns during the year.

## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,179,925, a decrease of \$691,101 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance was \$1,887,712, an increase of \$6,016 from the prior year. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance totaled \$1,400,389 or 13.5% of total general fund expenditures.

The major streets fund is used to account for the receipt and expenditure of state shared gas and weight taxes under Act 51, P.A. 1951 as amended. The fund balance at the end of the year amounted to \$387,053, a decrease of \$211,948 from the previous year due to the maintenance, repairs and construction of major streets.

The capital improvement fund is used to account for the revenue of a tax millage that is to be used for improvements. The fund balance at the end of the year amounted to \$1,224,259, a decrease of \$675,541 from the previous year. The decrease is due to current year capital improvement expenditures exceeding the current tax levy and other revenues.

**Proprietary funds** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's enterprise operation consists of the water and sewer fund which provides services to most residents and businesses of the City. This fund experienced an increase in net position of \$1,168,360 during the year.

## Budgetary Highlights

- General fund budgeted revenues were increased to reflect higher property taxes and state shared revenues than originally anticipated.
- The State of Michigan increased funding to offset the cost of snow and ice removal.

## Capital Asset and Debt Administration

**Capital assets** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$62,313,612 (net of accumulated depreciation). Of this amount, \$31,862,895 was for its governmental type activities and \$30,450,717 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant additions consisted of a new fire engine and various infrastructure projects. Additional information on the City's capital assets can be found in Note 6 to these financial statements.

**Long-term debt** At the end of the current fiscal year, the City had total long-term debt, including compensated absences, other post-employment benefits obligations, and net pension liability, outstanding of \$38,900,235. Of this amount, \$34,921,153 was for governmental activities while \$3,979,082 was for business-type activities. Additional information on the City's long-term debt can be found in Note 9 to these financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

The following economic factors were considered in preparing the City's budget for the 2016-2017 fiscal year:

- Property values increased for the 4<sup>th</sup> year in a row.
- State revenue sharing is expected to increase again next fiscal year according to the State of Michigan.
- The State of Michigan is beginning to replace the lost revenue from personal property tax by sending local governments a portion of the use tax.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Norton Shores, 4814 Henry Street, Norton Shores, MI 49441.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF NORTON SHORES**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Tax	Brownfield
	Activities	Activities		Increment	Redevelopment
			Finance	Authority	
<b>Assets</b>					
Cash and pooled investments	\$ 7,183,911	\$ 10,949,994	\$ 18,133,905	\$ 4,070,448	\$ 236,208
Accounts receivable	351,963	1,759,994	2,111,957	-	-
Due from other governments	962,840	400,000	1,362,840	1,689	-
Special assessments receivable	49,491	326,553	376,044	-	-
Prepaid and other assets	303,302	47,424	350,726	18	-
Inventory	125,165	335,549	460,714	-	-
Restricted assets					
Cash and pooled investments	-	950	950	-	-
Capital assets					
Land	2,394,899	250	2,395,149	456,627	-
Depreciable capital assets, net	<u>29,467,996</u>	<u>30,450,467</u>	<u>59,918,463</u>	<u>763,652</u>	<u>-</u>
<b>Total assets</b>	<u>40,839,567</u>	<u>44,271,181</u>	<u>85,110,748</u>	<u>5,292,434</u>	<u>236,208</u>
<b>Deferred outflows</b>					
Deferred outflows related to pensions	<u>4,298,601</u>	<u>506,990</u>	<u>4,805,591</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>					
Accounts payable	412,048	814,809	1,226,857	121,293	-
Accrued liabilities	323,202	28,734	351,936	8	-
Unearned revenue	55,014	-	55,014	-	-
Noncurrent liabilities					
Compensated absences	892,377	36,634	929,011	-	-
Net other post-employment benefits	10,922,828	392,282	11,315,110	-	-
Net pension liability	22,339,398	2,634,776	24,974,174	-	-
Due within one year	76,786	238,478	315,264	-	-
Due in more than one year	<u>689,764</u>	<u>676,912</u>	<u>1,366,676</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>35,711,417</u>	<u>4,822,625</u>	<u>40,534,042</u>	<u>121,301</u>	<u>-</u>
<b>Net position</b>					
Net investment in capital assets	31,096,345	29,535,327	60,631,672	1,220,279	-
Restricted for					
Major/local streets	387,053	-	387,053	-	-
Local streets	126,419	-	126,419	-	-
Municipal roads	481,296	-	481,296	-	-
Building	324,120	-	324,120	-	-
Community development program	9,868	-	9,868	-	-
Perpetual care	733,948	-	733,948	-	-
Capital improvements	1,224,259	950	1,225,209	-	-
Unrestricted (deficit)	<u>(24,956,557)</u>	<u>10,419,269</u>	<u>(14,537,288)</u>	<u>3,950,854</u>	<u>236,208</u>
<b>Total net position</b>	<u>\$ 9,426,751</u>	<u>\$ 39,955,546</u>	<u>\$ 49,382,297</u>	<u>\$ 5,171,133</u>	<u>\$ 236,208</u>

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

**CITY OF NORTON SHORES**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>		<b>Capital Grants and Contributions</b>
<b>Primary government</b>					
Governmental activities					
General government	\$ 4,163,959	\$ 1,962,978	\$ -	\$ -	\$ (2,200,981)
Public safety	8,464,800	836,744	13,888	-	(7,614,168)
Highways and streets	3,322,948	8,764	2,265,347	1,227,214	178,377
Sanitation	727,782	-	-	-	(727,782)
Culture and recreation	894,098	230,762	-	-	(663,336)
Administration	659,325	-	-	-	(659,325)
Community development	200,835	-	-	198,035	(2,800)
Interest on long-term debt	21,624	-	-	-	(21,624)
<b>Total governmental activities</b>	<b>18,455,371</b>	<b>3,039,248</b>	<b>2,279,235</b>	<b>1,425,249</b>	<b>(11,711,639)</b>
Business-type activities					
Water and Sewer	7,941,780	7,355,059	210,230	609,776	233,285
<b>Total primary government</b>	<b>\$ 26,397,151</b>	<b>\$ 10,394,307</b>	<b>\$ 2,489,465</b>	<b>\$ 2,035,025</b>	<b>\$ (11,478,354)</b>
<b>Component units</b>					
Tax Increment Finance Authority	\$ 890,183	\$ -	\$ -	\$ -	\$ (890,183)
Brownfield Redevelopment Authority	132,702	-	-	-	(132,702)
<b>Total component units</b>	<b>\$ 1,022,885</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,022,885)</b>

(Continued)

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

**CITY OF NORTON SHORES**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax	Brownfield Redevelopment Authority
	Activities	Activities		Increment Finance Authority	
<b>Changes in net position</b>					
<b>Net (expense) revenue</b>	\$ (11,711,639)	\$ 233,285	\$ (11,478,354)	\$ (890,183)	\$ (132,702)
General revenues					
Property taxes					
General	5,533,329	-	5,533,329	1,438,377	121,522
Sanitation	871,921	-	871,921	-	-
Road improvements	1,181,751	-	1,181,751	-	-
Capital projects	1,585,290	-	1,585,290	-	-
State shared revenues	1,906,311	-	1,906,311	-	-
Unrestricted investment earnings (loss)	636,929	830,404	1,467,333	-	-
Other general revenues	215,577	104,671	320,248	-	-
<b>Total general revenues and transfers</b>	<u>11,931,108</u>	<u>935,075</u>	<u>12,866,183</u>	<u>1,438,377</u>	<u>121,522</u>
Change in net position	219,469	1,168,360	1,387,829	548,194	(11,180)
<b>Net position, beginning of year</b>	<u>9,207,282</u>	<u>38,787,186</u>	<u>47,994,468</u>	<u>4,622,939</u>	<u>247,388</u>
<b>Net position, end of year</b>	<u>\$ 9,426,751</u>	<u>\$ 39,955,546</u>	<u>\$ 49,382,297</u>	<u>\$ 5,171,133</u>	<u>\$ 236,208</u>

(Concluded)

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

**CITY OF NORTON SHORES**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

**JUNE 30, 2016**

	<u>General</u>	<u>Major Streets Fund</u>	<u>Capital Improvements Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>					
Cash and pooled investments	\$ 1,299,461	\$ -	\$ 1,337,014	\$ 3,628,241	\$ 6,264,716
Accounts receivable	314,705	3,635	24,000	3,700	346,040
Special assessments receivable	-	-	-	49,491	49,491
Prepaid items	226,215	38,213	-	15,946	280,374
Due from other funds	137,168	-	75,679	-	212,847
Due from other governments	372,072	411,532	-	179,236	962,840
Inventory	11,108	93,442	-	-	104,550
<b>Total assets</b>	<b><u>\$ 2,360,729</u></b>	<b><u>\$ 546,822</u></b>	<b><u>\$ 1,436,693</u></b>	<b><u>\$ 3,876,614</u></b>	<b><u>\$ 8,220,858</u></b>
<b>Liabilities, deferred inflows, and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 147,530	\$ 4,646	\$ 209,758	\$ 47,085	\$ 409,019
Accrued liabilities	273,149	17,955	-	23,458	314,562
Due to other funds	-	137,168	-	75,679	212,847
Unearned revenue	52,338	-	2,676	-	55,014
<b>Total liabilities</b>	<b><u>473,017</u></b>	<b><u>159,769</u></b>	<b><u>212,434</u></b>	<b><u>146,222</u></b>	<b><u>991,442</u></b>
<b>Deferred inflows</b>					
Unavailable revenues	-	-	-	49,491	49,491
<b>Fund balances</b>					
Nonspendable					
Permanent fund corpus	-	-	-	733,948	733,948
Inventory	11,108	93,442	-	-	104,550
Prepaid items	226,215	38,213	-	15,946	280,374
Restricted					
Streets	-	255,398	-	607,715	863,113
Solid waste	-	-	-	155,265	155,265
Building	-	-	-	321,665	321,665
Community development	-	-	-	9,868	9,868
Capital improvements	-	-	1,224,259	-	1,224,259
Assigned					
Subsequent years expenditures	250,000	-	-	-	250,000
Capital projects	-	-	-	1,836,494	1,836,494
Unassigned	1,400,389	-	-	-	1,400,389
<b>Total fund balances</b>	<b><u>1,887,712</u></b>	<b><u>387,053</u></b>	<b><u>1,224,259</u></b>	<b><u>3,680,901</u></b>	<b><u>7,179,925</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$ 2,360,729</u></b>	<b><u>\$ 546,822</u></b>	<b><u>\$ 1,436,693</u></b>	<b><u>\$ 3,876,614</u></b>	<b><u>\$ 8,220,858</u></b>

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

# CITY OF NORTON SHORES

## RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2016

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<b>Fund balances - governmental funds</b>	\$ 7,179,925
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	2,394,899
Add - capital assets (net of accumulated depreciation)	28,530,104
Certain assets are not due and receivable in the current period and therefore are offset with unavailable revenues in the funds.	
Add - deferred inflows	49,491
An internal service fund is used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service fund	946,642
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(875,167)
Deduct - net pension liability	(21,307,965)
Add - deferred outflows related to pensions	4,100,130
Deduct - bonds and notes payable	(766,550)
Deduct - post-employment benefits payable	<u>(10,824,758)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 9,426,751</u></b>

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

**CITY OF NORTON SHORES**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Major Streets Fund</u>	<u>Capital Improvements Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 4,469,728	\$ -	\$ 1,585,290	\$ 3,117,273	\$ 9,172,291
Intergovernmental revenues					
Federal	13,888	-	-	198,035	211,923
State	1,906,311	1,849,853	-	513,698	4,269,862
Licenses and permits	401,366	-	-	455,772	857,138
Charges for services	2,072,580	-	-	44,557	2,117,137
Fines	56,209	-	-	-	56,209
Special assessments	-	-	-	8,764	8,764
Investment earnings	304,908	33,321	112,317	143,339	593,885
Miscellaneous	68,607	68,505	61,037	17,428	215,577
<b>Total revenues</b>	<u>9,293,597</u>	<u>1,951,679</u>	<u>1,758,644</u>	<u>4,498,866</u>	<u>17,502,786</u>
<b>Expenditures</b>					
Current					
General government	2,223,686	-	-	-	2,223,686
Public safety	6,821,287	-	-	468,824	7,290,111
Highway and streets	494,047	990,755	-	352,626	1,837,428
Sanitation	-	-	-	719,408	719,408
Culture and recreation	856,351	-	-	-	856,351
Administration	-	324,554	218,253	108,468	651,275
Community development	-	-	-	199,814	199,814
Debt service					
Principal	-	-	74,862	-	74,862
Interest	-	-	21,624	-	21,624
Capital outlay	-	848,318	2,119,446	1,351,564	4,319,328
<b>Total expenditures</b>	<u>10,395,371</u>	<u>2,163,627</u>	<u>2,434,185</u>	<u>3,200,704</u>	<u>18,193,887</u>
Revenues over (under) expenditures	<u>(1,101,774)</u>	<u>(211,948)</u>	<u>(675,541)</u>	<u>1,298,162</u>	<u>(691,101)</u>
Other financing sources (uses)					
Transfers in	1,107,790	-	-	-	1,107,790
Transfers out	-	-	-	(1,107,790)	(1,107,790)
Total other financing sources (uses)	<u>1,107,790</u>	<u>-</u>	<u>-</u>	<u>(1,107,790)</u>	<u>-</u>
Net changes in fund balances	6,016	(211,948)	(675,541)	190,372	(691,101)
<b>Fund balances, beginning of year</b>	<u>1,881,696</u>	<u>599,001</u>	<u>1,899,800</u>	<u>3,490,529</u>	<u>7,871,026</u>
<b>Fund balances, end of year</b>	<u>\$ 1,887,712</u>	<u>\$ 387,053</u>	<u>\$ 1,224,259</u>	<u>\$ 3,680,901</u>	<u>\$ 7,179,925</u>

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

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ (691,101)</b>
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	5,163,914
Deduct - depreciation expense	(2,113,934)
<p>Some receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.</p>	
Deduct - special assessment receipts	(13,267)
<p>Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Add - principal payments on debt	74,862
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Deduct - increase in compensated absences	(40,134)
Deduct - increase in post-employment benefits liability	(1,414,286)
Deduct - increase in net pension liability	(3,958,613)
Add - increase in deferred outflows related to pensions	3,102,064
<p>Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.</p>	
Add - increase in net position from the internal service funds	109,964
<b>Change in net position of governmental activities</b>	<b>\$ 219,469</b>

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

**CITY OF NORTON SHORES**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	<b>Enterprise Fund</b>	<b>Governmental Activities</b>
	<b>Water and Sewer Fund</b>	<b>Equipment Revolving Internal Service Fund</b>
<b>Assets</b>		
Current assets		
Cash and pooled investments	\$ 10,949,994	\$ 919,195
Accounts receivable	1,759,994	5,923
Special assessment receivable	326,553	-
Due from other governments	400,000	-
Prepaid and other assets	47,424	22,928
Inventory	335,549	20,615
Restricted cash and pooled investments	950	-
Total current assets	<u>13,820,464</u>	<u>968,661</u>
Capital assets		
Land	250	-
Depreciable capital assets	65,772,798	4,940,258
Less accumulated depreciation	<u>(35,322,331)</u>	<u>(4,002,366)</u>
Net capital assets	<u>30,450,717</u>	<u>937,892</u>
<b>Total assets</b>	<u>44,271,181</u>	<u>1,906,553</u>
<b>Deferred outflows</b>		
Deferred outflows related to pensions	<u>506,990</u>	<u>198,471</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	814,809	3,029
Accrued liabilities	28,734	8,640
Current portion of long-term debt	<u>238,478</u>	<u>-</u>
Total current liabilities	<u>1,082,021</u>	<u>11,669</u>
Long-term liabilities		
Compensated absences	36,634	17,210
Net other post-employment benefits obligation	392,282	98,070
Net pension liability	2,634,776	1,031,433
Bonds payable, net of current portion	<u>676,912</u>	<u>-</u>
Total long-term liabilities	<u>3,740,604</u>	<u>1,146,713</u>
<b>Total liabilities</b>	<u>4,822,625</u>	<u>1,158,382</u>
<b>Net Position</b>		
Net investment in capital assets	29,535,327	937,892
Restricted for capital improvements	950	-
Unrestricted	<u>10,419,269</u>	<u>8,750</u>
<b>Total net position</b>	<u>\$ 39,955,546</u>	<u>\$ 946,642</u>

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

**CITY OF NORTON SHORES**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Enterprise Fund</b>	<b>Governmental Activities</b>
	<b>Water and Sewer Fund</b>	<b>Equipment Revolving Internal Service Fund</b>
<b>Operating revenue</b>		
Charges for services	\$ 7,355,059	\$ 1,282,020
Water service installations and direct sewer connections	210,230	-
Other	104,671	29,266
<b>Total operating revenue</b>	7,669,960	1,311,286
<b>Operating expense</b>		
Personnel services	1,771,136	458,892
Other operating expenses	4,933,125	434,773
Depreciation	1,227,293	378,885
<b>Total operating expense</b>	7,931,554	1,272,550
Operating income (loss)	(261,594)	38,736
Non-operating revenue (expense)		
Gain on disposal of assets	-	28,184
Investment earnings (loss)	830,404	43,044
Interest expense	(10,226)	-
Total non-operating revenue (expense)	820,178	71,228
Income (loss) before transfers and capital contributions	558,584	109,964
Capital contributions		
State grant	609,776	-
Changes in net position	1,168,360	109,964
<b>Net position, beginning of year</b>	38,787,186	836,678
<b>Net position, end of year</b>	\$ 39,955,546	\$ 946,642

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

**CITY OF NORTON SHORES**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer Fund</u>	<u>Equipment Revolving Internal Service Fund</u>
<b>Cash flows from operating activities</b>		
Receipts from internal services provided	\$ -	\$ 1,352,470
Receipts from customers and users	7,220,101	-
Payments to employees	(1,602,405)	(394,311)
Payments to suppliers	(5,221,128)	(413,405)
<b>Net cash provided by (used in) operating activities</b>	<u>396,568</u>	<u>544,754</u>
<b>Cash flows from capital and related financing activities</b>		
Payments on contract obligations	(191,118)	-
Interest expense	(10,226)	-
Capital grants	609,776	-
Proceeds from sale of capital assets	-	28,184
Acquisitions of capital assets	(834,412)	(261,761)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(425,980)</u>	<u>(233,577)</u>
<b>Cash flows from investing activities</b>		
Investment earnings (loss)	<u>830,404</u>	<u>43,044</u>
Net increase (decrease) in cash and pooled investments	800,992	354,221
<b>Cash and pooled investments, beginning of year</b>	<u>10,149,952</u>	<u>564,974</u>
<b>Cash and pooled investments, end of year</b>	<u>\$ 10,950,944</u>	<u>\$ 919,195</u>
<b>Cash flows from operating activities</b>		
Operating income (loss)	\$ (261,594)	\$ 38,736
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,227,293	378,885
Payment on contract obligations from escrow held at Muskegon County	(64,454)	-
Deferred outflows related to pensions	(383,577)	(150,159)
Change in operating assets and liabilities which provided (used) cash		
Accounts receivable	(40,925)	41,184
Assessments receivable	55,520	-
Due from other governments	(400,000)	-
Inventory	(25,856)	19,666
Prepaid assets and other items	3,666	508
Accounts payable	(265,813)	1,194
Accrued liabilities	3,298	1,385
Other post-employment benefits	84,974	21,244
Net pension liability	489,491	191,621
Compensated absences	(25,455)	490
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 396,568</u>	<u>\$ 544,754</u>

Non-cash item: \$64,454 was applied towards the principal of long term debt from escrow funds held at Muskegon County.

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

**CITY OF NORTON SHORES**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION**

**JUNE 30, 2016**

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	<b>Other Post- employment Benefits <u>Trust Fund</u></b>	<b>Agency <u>Funds</u></b>
<b>Assets</b>		
Cash and pooled investments	\$ 1,748,339	\$ 115,915
<b>Liabilities</b>		
Accounts payable	-	\$ 1
Due to other governmental units	-	115,914
<b>Total liabilities</b>	-	\$ 115,915
<b>Net Position</b>		
Net position - held in trust for post-employment benefits	\$ 1,748,339	

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

**CITY OF NORTON SHORES**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Other Post- employment Benefits <u>Trust Fund</u></b>
<b>Additions</b>	
Contributions	
City contributions	\$ 732,319
Investment earnings	
Interest	<u>11,245</u>
<b>Total additions</b>	743,564
<b>Deductions</b>	
Health insurance premiums paid	<u>732,319</u>
Changes in net position	11,245
<b>Net position, beginning of year</b>	<u>1,737,094</u>
<b>Net position, end of year</b>	<u>\$ 1,748,339</u>

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

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City.

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

The component unit columns in the government-wide financial statements include the financial data of the Tax Increment Financing Authority (the "TIFA") and the Brownfield Redevelopment Authority. These component units provide services to the businesses located within the districts. They are reported in a separate column to emphasize they are legally separate from the City.

The TIFA was created to correct and prevent deterioration and to promote economic growth within the downtown area. The TIFA governing body consists of individuals that are approved by the City's Council. The City Council approves the TIFA's budget and the TIFA is fiscally dependent on the City. Financial statements are not separately issued for the TIFA.

The Brownfield Redevelopment Authority accounts for captured tax revenue on specific properties within the City that have been identified and approved by the State of Michigan as brownfields requiring site reclamation. These revenues are used to reimburse property owners for expenditures incurred for brownfield cleanup. The City Council approves the governing body of the Brownfield Redevelopment Authority. The Brownfield Redevelopment Authority is fiscally dependent on the City since the City approves the Brownfield Redevelopment Authority's budget. Financial statements are not separately issued for the Brownfield Redevelopment Authority.

#### ***Joint Venture***

The City of Norton Shores is a participant in the West Michigan Regional Water Authority (the Authority) (a joint venture). The purpose of the Authority is to develop and maintain water infrastructure. The City utilizes the Authority for transportation of water from the Muskegon water system. The City pays for these services based on its share of water flow through the system to cover debt service, maintenance and administration of the Authority. For the year ended June 30, 2016, the City paid \$1,308,316 to the Authority for water purchases and owes an additional \$349,344 for water purchases. The City received no payments from the Authority for the provision of administrative services during the year. \$400,000 is due to the City from the Authority for a short-term loan. Financial statements of the Authority can be obtained by contacting the Treasurer c/o City of Norton Shores, 4814 Henry Street, Norton Shores, MI 49441.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants, state shared revenue and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, 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 the current fiscal period is considered 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 City.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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

The City reports the following major governmental funds:

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

The *Major Streets Fund* is used to account for the construction and maintenance of streets. Financing is provided by the City's share of the State's fuel and weight taxes.

The *Capital Improvement Fund* is used to account for the City Charter authorized two (2) mill property tax levy and related restricted revenues for the acquisition of land, equipment, facilities, improvements and similar items for general governmental use.

The City reports the following major enterprise fund:

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

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Fund* is used to account for shared equipment usage provided to the City departments and funds on a cost reimbursement basis.

The *Other Post-employment Benefits Trust Fund* is used to account for the operations of the Other Post-employment Benefits Plan which provides post-employment benefits to the City's employees.

The *Agency Funds* are used to account for the collection and disbursement of funds that are collected on behalf of outside governments or other parties.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### ***Budgets and Budgetary Accounting***

Comparisons to budget are presented for the general and special revenue funds. General and special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted at the department level.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year-end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budgets of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within a department subject to the condition that the total expenditures do not exceed the approved appropriations by department. Thus the legal level of budgetary control is at the activity level. Supplemental appropriations were necessary during the year.

### ***Cash and Pooled Investments***

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

### ***Investments***

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

City investment policy allows for all investment authorized by State statutes. State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. The City OPEB plan is also allowed to invest in corporate debt and equity securities.

### ***Receivables/Due from Other Governments***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial to the financial statements.

### ***Special Assessments Receivable***

Special assessments receivable consist of long-term receivables from customers and benefited parties for various infrastructure improvement projects. Special assessments in governmental funds are recorded as revenue when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue in governmental funds. Special assessments are billed annually. Special assessments are recorded when levied on the government-wide and proprietary fund financial statements

### ***Prepaid Items***

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

### ***Inventory***

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

### ***Restricted Cash and Pooled Investments***

Restricted balances represent fees collected for future repairs and maintenance of the water and sewer systems.

### ***Capital Assets***

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

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20-50
Infrastructure	20
Equipment	10
Vehicles	4-8

### ***Unearned Revenue***

Funds report *unearned revenue* in connection with resources that have been received, but not yet earned.

### ***Compensated Absences***

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net position of the individual enterprise funds. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

### ***Pensions***

For purposes of measuring then net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense; information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as an other financing use. Issuance costs are reported as expense/expenditures.

### ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has items that qualify for reporting in this category related to the net pension liability which are discussed in Note 7.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments which are deferred and recognized as an inflow of resources in the period that the amounts become available.

### ***Net Position/Fund Balance***

Governmental funds report fund balance in the following five categories:

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

Fund balance can only be committed by resolution of the City Council. The City has not delegated the authority to assign fund balance.

City Council has adopted a minimum fund balance policy which requires fund balance of the general fund to equal at least 10% of subsequent years budgeted expenditures and transfers out.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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### ***Net Position and Fund Balance Flow Assumptions***

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

### ***Property Taxes***

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 31. Winter taxes are levied December 1 and are due without penalty on or before February 14. Tax bills include the City's own property taxes and taxes billed on behalf of other taxing units. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Taxes collected on behalf of other taxing units are accounted for in the agency funds. Property taxes levied in July of each year are recognized as revenue in the year in which they are levied.

### ***Intergovernmental Revenues***

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

### ***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. Changes between enterprise funds and other functions of the City are not reimbursements because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Remaining transactions are generally reflected as transfers.

## **2. DEFICIT NET POSITION/FUND BALANCE**

At June 30, 2016, the Governmental activities had an unrestricted net position deficit of \$24,956,557.

## **3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

During the year ended June 30, 2016, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Legal services	\$173,900	\$181,672	\$ 7,772
Park development and maintenance	27,100	27,393	293
Community development program fund			
Neighborhood revitalization	107,186	199,814	92,628

#### 4. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$18,133,905	\$4,306,656	\$1,864,254	\$24,304,815
Restricted cash and pooled investments	950	-	-	950
	\$18,134,855	\$4,306,656	\$1,864,254	\$24,305,765

The cash and pooled investments making up the above balances are as follows:

Deposits	\$ 1,547,096
Investments	22,755,069
Petty cash	<u>3,600</u>
 Total	 <u>\$24,305,765</u>

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City minimizes this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the City's investment policy. As of year-end, \$1,992,038 of the City's bank balance of \$2,242,038 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

#### **Investment and deposit risk**

*Interest Rate Risk.* State law and City policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1. It is the City's policy to reduce interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1. The investment policy does not have specific limits in excess of state law on investment credit risk.

The ratings and maturity for investments held at year-end are summarized as follows:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Money market accounts	N/A	\$ 3,236,783	Unrated	
MERS total market fund	N/A	1,748,339	Unrated	
Certificates of deposit	2018-2029	1,428,448	Unrated	
Municipal bonds:				
Hudsonville Public Schools	2029	258,652	AA-	S&P
Charles Stewart Mott Community Collection	2031	322,459	AA	S&P
Corporate Bonds				
Toyota Motor Credit Corporation	2031	670,778	AA-	S&P
Government securities				
GNMA pools	2016-2036	3,471	Unrated	
FNMA	2030	707,933	AA+	S&P
FNMA	2030	130,278	AA+	S&P
FNMA	2032	675,563	AA+	S&P
FHLMC pool	2032	310,032	Unrated	
FHLB	2032	1,321,191	AA+	S&P
GNMA pool	2040	290,395	Unrated	
FHR pool	2040	151,703	Unrated	
FNMA pool	2041	98,743	Unrated	
FNR pool	2042	467,602	Unrated	
FNR pool	2042	498,467	Unrated	
FNR pool	2042	1,029,817	Unrated	
GNR pool	2042	47,823	Unrated	
FHLMC pool	2043	393,505	Unrated	
FNMA pool	2043	323,063	Unrated	
FHLMC pool	2043	942,285	Unrated	
FNMA pool	2043	437,496	Unrated	
GNMA pool	2043	500,599	Unrated	
FHLMC pool	2044	1,035,379	Unrated	
FHLMC pool	2045	418,272	Unrated	
FHLMC pool	2045	425,966	Unrated	
FHLMC pool	2045	458,191	Unrated	
FHLMC pool	2045	419,880	Unrated	
GNR pool	2045	440,606	Unrated	
GNMA pool	2045	976,504	Unrated	
FNMA pool	2045	478,846	Unrated	
GNMA pool	2046	473,733	Unrated	
GNMA pool	2046	515,978	Unrated	
FHLMC pool	2046	1,116,289	Unrated	
		<u>\$22,755,069</u>		

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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

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

- FNMA, FHLB, municipal, and corporate bonds are valued using quoted market prices (Level 1 inputs).
- Money markets, MERS total market fund, GNMA FNMA, FHR, FNR, GNR, FHLMC, pools, and certificate of deposit investments are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The City does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the City's investment policy.

Of the \$22,755,069 of investments, the City has custodial credit risk of \$16,341,499 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above investments, \$3,236,783 is invested in pooled or mutual funds for which the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments are identified above.

#### 5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2016 consist of \$1,107,790 transferred into the general fund from nonmajor governmental funds.

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

Interfund receivables and payables at June 30, 2016 consist of \$75,679 receivable in the capital improvements fund from nonmajor governmental funds and \$137,168 receivable in the general fund from the major streets fund. These balances reflect loans made from funds with cash and pooled investments to those funds requiring temporary cash flow.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2016**

### 6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 2,221,937	\$ 172,962	\$ -	\$ 2,394,899
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>2,221,937</u>	<u>172,962</u>	<u>-</u>	<u>2,394,899</u>
<b>Capital assets, being depreciated</b>				
Buildings	10,353,441	85,615	-	10,439,056
Land improvements	2,127,984	904,923	-	3,032,907
Equipment	9,304,124	631,545	201,036	9,734,633
Infrastructure	35,958,829	3,630,630	-	39,589,459
Total capital assets, being depreciated	<u>57,744,378</u>	<u>5,252,713</u>	<u>201,036</u>	<u>62,796,055</u>
Less accumulated depreciation for				
Buildings	2,925,668	371,039	-	3,296,707
Land improvements	1,103,048	152,382	-	1,255,430
Equipment	5,982,330	724,577	201,036	6,505,871
Infrastructure	21,025,230	1,244,821	-	22,270,051
Total accumulated depreciation	<u>31,036,276</u>	<u>2,492,819</u>	<u>201,036</u>	<u>33,328,059</u>
<b>Net capital assets, being depreciated</b>	<u>26,708,102</u>	<u>2,759,894</u>	<u>-</u>	<u>29,467,996</u>
<b>Governmental Activities capital assets, net</b>	<b><u>\$28,930,039</u></b>	<b><u>\$2,932,856</u></b>	<b><u>\$ -</u></b>	<b><u>\$31,862,895</u></b>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 250	\$ -	\$ -	\$ 250
Construction in progress	559,288	-	559,288	-
Total capital assets, not being depreciated	<u>559,538</u>	<u>-</u>	<u>559,288</u>	<u>250</u>
<b>Capital assets being depreciated</b>				
Regional water system				
water mains and hydrants	19,204,729	1,252,318	-	20,457,047
Building	1,527,203	-	-	1,527,203
Sewers and lift stations	37,874,743	73,947	-	37,948,690
Machinery and equipment	371,815	67,435	-	439,250
Wastewater treatment	5,400,608	-	-	5,400,608
Total capital assets, being depreciated	<u>64,379,098</u>	<u>1,393,700</u>	<u>-</u>	<u>65,772,798</u>
Less accumulated depreciation for				
Regional water system				
water mains and hydrants	6,178,677	305,276	-	6,483,953
Building	114,540	38,180	-	152,720
Sewers and lift stations	23,190,427	753,933	-	23,944,360
Machinery and equipment	212,130	21,891	-	234,021
Wastewater treatment	4,399,264	108,013	-	4,507,277
Total accumulated depreciation	<u>34,095,038</u>	<u>1,227,293</u>	<u>-</u>	<u>35,322,331</u>
<b>Net capital assets, being depreciated</b>	<u>30,284,060</u>	<u>166,407</u>	<u>-</u>	<u>30,450,467</u>
<b>Business-type Activities capital assets, net</b>	<b><u>\$30,843,598</u></b>	<b><u>\$ 166,407</u></b>	<b><u>\$559,288</u></b>	<b><u>\$30,450,717</u></b>

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2016**

**Component Units**

<b>Capital assets, not being depreciated</b>			
Land	\$ 456,627	\$ -	\$ 456,627
<b>Capital assets being depreciated</b>			
Buildings and infrastructure	899,666	-	899,666
Less accumulated depreciation for Buildings and infrastructure	113,522	22,492	136,014
<b>Net capital assets, being depreciated</b>	<u>786,144</u>	<u>(22,492)</u>	<u>763,652</u>
<b>Component Units capital assets, net</b>	<u><b>\$1,242,771</b></u>	<u><b>\$(22,492)</b></u>	<u><b>\$ 1,220,279</b></u>

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

**Governmental Activities**

General government	\$ 266,271
Public safety	565,824
Public works and streets	1,281,839
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>378,885</u>

**Total depreciation expense - governmental activities** \$2,492,819

**7. PENSION PLANS**

**Defined Benefit Plan**

***Plan Description***

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

***Benefits provided***

Benefits provided include plans with multipliers ranging from 2.25 to 2.5. Vesting period of 10 years. Normal retirement age is 60 with early retirement dependent on years of service. Final average compensation is calculated based on 3 years.

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

Active plan members	94
Inactive employees entitled but not yet receiving benefits	9
Inactive employees or beneficiaries currently receiving benefits	<u>103</u>
Total	<u><u>206</u></u>

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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#### **Contributions**

The City is required to contribute at an actuarially determined rate. The employer makes monthly employer contributions of \$144,609. Participating employees are required to contribute from 0.0% to 4.0% percent of gross wages to the Plan based on position and classification. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

#### **Net Pension Liability**

The employer's Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)

Investment rate of return: 7.75%, net of investment expense, including inflation

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2016**

### Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 1/1/15	\$40,155,661	\$19,821,212	\$20,334,449
Changes for the Year:			
Service cost	686,657	-	686,657
Interest	3,134,512	-	3,134,512
Change in benefits	(1,214)	-	(1,214)
Differences between expected and actual experience	158,618	-	158,618
Change in assumptions	2,129,130	-	2,129,130
Contributions: employer	-	1,775,335	(1,775,335)
Contributions: employee	-	116,683	(116,683)
Net investment income	-	(288,838)	288,838
Benefit payments, including refunds	(2,635,186)	(2,635,186)	-
Administrative expense	-	(42,701)	42,701
Other changes	92,501	-	92,501
Net changes	3,565,018	(1,074,707)	4,639,725
Balance at 12/31/15	\$43,720,679	\$18,746,505	\$24,974,174

### Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	Current		
	1% Decrease	Discount rate	1% increase
Total Pension Liability	\$48,569,037	\$43,720,679	\$39,603,834
Fiduciary Net Position	18,746,505	18,746,505	18,746,505
Net Pension Liability	\$29,822,532	\$24,974,174	\$20,857,329

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

For the year ended June 30, 2016 the City recognized pension expense of \$2,257,250. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences in experience	\$ 118,963
Differences in assumptions	1,596,847
Excess(Deficit) Investment Returns	1,693,161
Contributions subsequent to the Measurement date*	1,396,620
Total	<u>\$4,805,591</u>

\* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2017.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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

2017	\$1,013,450
2018	1,013,450
2019	1,013,450
2020	368,621
2021	-
Total	<u>\$3,408,971</u>

#### 8. OTHER POST-EMPLOYMENT BENEFITS

The City maintains a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 6, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. In accordance with the City's policy, the City provides an annual payment until the retiree is eligible for full social security benefits. As of June 30, 2016, the date of the last plan valuation, the Plan covered 174 members. The Plan does not issue a publically available financial report.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2016):

Retirees and beneficiaries receiving benefits	81
Active plan members	<u>93</u>
Total	<u>174</u>

The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. For the year ended June 30, 2016 the City contributed \$732,319 to the Plan.

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The projection of future benefit payments for an ongoing plan involves 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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculation.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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 sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included a 4% discount rate, 4% salary rate increase and a 4% expected rate of return on assets. Amortization of the Unfunded Actuarial Accrued Liability was Level Dollar - Open method since retiree benefits are not related to salary level. The amortization period at June 30, 2016 is 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City OPEB obligation to the plan.

Annual required contribution	\$ 2,411,190
Interest on Net OPEB obligation	405,915
Adjustment to annual required contribution	<u>(564,282)</u>
Annual OPEB cost (expense)	2,252,823
Contribution made	<u>732,319</u>
Increase in net OPEB obligation	1,520,504
Net OPEB obligation, beginning of year	<u>9,794,606</u>
Net OPEB obligation, end of year	<u>\$11,315,110</u>

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

#### Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual OPEB <u>Cost</u>	Percentage of Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/14	\$2,013,328	45%	\$8,179,377
6/30/15	2,272,412	29%	9,794,606
6/30/16	2,252,823	33%	11,315,110

#### Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>Total</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
6/30/15	\$1,737,094	\$39,890,968	\$38,153,874	4%	Not available	n/a

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2016**

### 9. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2016:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>					
\$926,587 installment purchase with payments due in annual installments of \$74,862 to \$94,069 through May 2025, plus interest at 2.57%	\$ 841,412	\$ -	\$74,862	\$ 766,550	\$76,786
Compensated absences	851,753	40,624	-	892,377	89,238
Other post-employment benefits	9,487,298	1,435,530	-	10,922,828	-
<b>Total Governmental Activities</b>	<b>\$11,180,463</b>	<b>\$1,476,154</b>	<b>\$74,862</b>	<b>\$12,581,755</b>	<b>\$166,024</b>
<b>Business-type Activities</b>					
Obligations under contract with the County of Muskegon	\$1,170,962	\$ -	\$255,572	\$915,390	\$238,478
Compensated absences	62,089	-	25,455	36,634	3,663
Other post-employment benefits	307,308	84,974	-	392,282	-
<b>Total Business-type Activities</b>	<b>\$1,540,359</b>	<b>\$84,974</b>	<b>\$281,027</b>	<b>\$1,344,306</b>	<b>\$242,141</b>

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2016 are as follows:

<b>Year Ending June 30</b>	<b>Governmental activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 76,786	\$ 19,700	\$238,478	\$29,950
2018	78,760	17,727	245,731	22,796
2019	80,784	15,703	253,205	15,424
2020	82,860	13,627	177,976	7,828
2021	84,990	11,497	-	-
2022-2026	362,370	23,579	-	-
<b>Total</b>	<b>\$766,550</b>	<b>\$101,833</b>	<b>\$915,390</b>	<b>\$75,998</b>

The 2000 Muskegon County Water Supply System No. 1, Series II contract was entered into with the County for the construction of a regional transmission water main, enhancements for water supply storage, and construction of distribution water mains in the City. This contractual agreement is treated as a capital lease with approximately 60% of the constructed asset recorded within the sewer/water fund. The City of Norton Shores is responsible for annual debt service in the amount equal to its share of system construction costs, currently estimated at 60% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$6,500,000 bond issue. The interest rate ranges from 4.75 to 6.75 percent over the life of the contract. In compliance with constitutional limitations, the City is utilizing water service revenue for this debt.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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In 2014, the West Michigan Regional Water Authority issued its bonds totaling \$15,700,000 and made improvements to the water system and completed an inter-connect pipeline to the City of Muskegon water system. Under contractual agreements as wholesale users of the system, the City of Norton Shores and the Charter Township of Fruitport have agreed to pay a portion of the debt service on these bonds based on actual water usage pursuant to the Regional Water System Agreement between the entities. Based on contractual obligation, the City's share of the debt outstanding on June 30, 2016 was approximately 70% of the outstanding balance, or \$10,920,000. The City has not recorded a liability for any portion of the West Michigan Water Resources Authority debt.

#### 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance and participates in the Michigan Municipal Liability and Property Pool (the Pool). The City is covered for property and liability coverage through the pool. The City's contributions to the Pool are combined with other member contributions to provide members with coverage for property and liability claims. Funds not needed to pay claims or maintain reserves are either distributed to the members or credited toward future contributions. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no changes in insurance coverage from the prior year.

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

The City is self-funded for medical, dental, and optical insurance. The claims liability of \$0 reported at June 30, 2016 is based on the requirements of accounting standards which require that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The activity of the self-funded insurance is accounted for in each fund based on payroll. An independent administrator is contracted to process the daily claims. An excess coverage (reinsurance) insurance policy covers individual claims in excess of \$70,000 per family. There were no changes in insurance coverage from the prior year. The City is responsible for paying administrative charges which are included in the funds. The liability at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation and recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in the history of the self-insurance program, and there have been no significant reductions in insurance coverage from the prior year.

# CITY OF NORTON SHORES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

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The change in the claims liability for the year ended June 30, 2016 was as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2015	\$ -	\$1,870,316	\$1,870,316	\$ -
2016	-	1,417,098	1,417,098	-

#### 11. CONTINGENT LIABILITIES

Amounts received or receivable from grantor 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 applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

In 1997, the City of Muskegon Heights made improvements and expanded the capacity of its water filtration plant. The project was funded with \$18,400,000 in revenue bonds. Under contractual agreements as wholesale users of the system, the City of Norton Shores and the Charter Township of Fruitport agreed to pay a portion of the debt service on these bonds pursuant to the Water Service Agreement between the three communities. The City no longer utilizes water processed through the City of Muskegon Heights water filtration plant and believes payments made to date have fulfilled their obligation to pay their portion of the related debt.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 4,419,818	\$ 4,518,226	\$ 4,469,728	\$ (48,498)
Intergovernmental revenues				
Federal	60,000	10,000	13,888	3,888
State	2,118,154	2,214,468	1,906,311	(308,157)
Licenses and permits	390,300	390,300	401,366	11,066
Charges for services	2,186,152	2,151,952	2,072,580	(79,372)
Fines	74,000	74,000	56,209	(17,791)
Investment earnings	115,000	115,000	304,908	189,908
Miscellaneous	60,000	64,200	68,607	4,407
<b>Total revenues</b>	<u>9,423,424</u>	<u>9,538,146</u>	<u>9,293,597</u>	<u>(244,549)</u>
<b>Expenditures</b>				
Current				
General government	2,293,499	2,295,303	2,223,686	71,617
Public safety	7,088,013	7,151,700	6,821,287	330,413
Highway and streets	539,153	533,649	494,047	39,602
Culture and recreation	847,194	881,148	856,351	24,797
<b>Total expenditures</b>	<u>10,767,859</u>	<u>10,861,800</u>	<u>10,395,371</u>	<u>466,429</u>
<b>Revenues over (under) expenditures</b>	(1,344,435)	(1,323,654)	(1,101,774)	221,880
Other financing sources (uses)				
Transfers in	1,090,235	1,101,235	1,107,790	6,555
Net changes in fund balance	(254,200)	(222,419)	6,016	228,435
<b>Fund balance, beginning of year</b>	<u>1,881,696</u>	<u>1,881,696</u>	<u>1,881,696</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 1,627,496</u>	<u>\$ 1,659,277</u>	<u>\$ 1,887,712</u>	<u>\$ 228,435</u>

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 1,490,892	\$ 1,655,335	\$ 1,849,853	\$ 194,518
Investment earnings	19,000	19,000	33,321	14,321
Miscellaneous	43,000	43,000	68,505	25,505
<b>Total revenues</b>	<u>1,552,892</u>	<u>1,717,335</u>	<u>1,951,679</u>	<u>234,344</u>
<b>Expenditures</b>				
Current				
Highway and streets	1,027,200	1,013,201	990,755	22,446
Administration	324,010	328,075	324,554	3,521
Capital outlay	448,200	875,405	848,318	27,087
<b>Total expenditures</b>	<u>1,799,410</u>	<u>2,216,681</u>	<u>2,163,627</u>	<u>53,054</u>
Net changes in fund balance	(246,518)	(499,346)	(211,948)	287,398
<b>Fund balance, beginning of year</b>	<u>599,001</u>	<u>599,001</u>	<u>599,001</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 352,483</u>	<u>\$ 99,655</u>	<u>\$ 387,053</u>	<u>\$ 287,398</u>

# CITY OF NORTON SHORES

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	2014	2015
<b>Total pension liability</b>		
Service cost	\$ 661,697	686,657
Interest	3,133,296	3,134,512
Changes in benefit terms	-	(1,214)
Difference between expected and actual experience	-	158,618
Changes in assumptions	-	2,129,130
Benefit payments including employee refunds	(2,575,661)	(2,635,186)
Other	-	92,501
<b>Net change in total pension liability</b>	1,219,332	3,565,018
<b>Total pension liability, beginning of year</b>	38,936,329	40,155,661
<b>Total pension liability, ending of year</b>	\$ 40,155,661	\$ 43,720,679
 <b>Plan Fiduciary Net Position</b>		
Contributions-employer	\$ 2,082,734	\$ 1,775,335
Contributions-employee	99,216	116,683
Net Investment income	1,190,601	(288,838)
Benefit payments including employee refunds	(2,575,661)	(2,635,186)
Administrative expense	(43,648)	(42,701)
<b>Net change in plan fiduciary net position</b>	753,242	(1,074,707)
<b>Plan fiduciary net position, beginning of year</b>	19,067,970	19,821,212
<b>Plan fiduciary net position, ending of year</b>	\$ 19,821,212	\$ 18,746,505
 <b>Employer net pension liability</b>	 \$ 20,334,449	 \$ 24,974,174
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	 49%	 43%
 <b>Covered employee payroll</b>	 \$ 5,685,103	 \$ 5,943,127
 <b>Employer's net pension liability as a percentage of covered employee payroll</b>	 358%	 420%

**Notes to schedule:**

The above data is based on a December 31 measurement date.

**CITY OF NORTON SHORES**  
**DEFINED BENEFIT PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2015</u>	<u>2016</u>
Actuarial determined contributions	\$ 1,629,528	\$ 1,793,736
Contributions in relation to the actuarially determined contribution	<u>2,129,528</u>	<u>2,293,736</u>
Contribution deficiency (excess)	<u>\$ (500,000)</u>	<u>\$ (500,000)</u>
Covered employee payroll	\$ 5,685,103	\$ 5,943,127
Contributions as a percentage of covered employee payroll	37%	39%

**Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	24 years
Asset valuation method	5 year smoothed (10 years for 2014)
Inflation	2.5% (3-4% for 2014)
Salary increases	3.75% (4.5 for 2014)
Investment rate of return	7.75% (8.25 for 2014)
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male 1994 group annuity mortality table

**CITY OF NORTON SHORES**

**REQUIRED SUPPLEMENTARY INFORMATION**

**OTHER POST-EMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2011	\$ 632,445	\$ 38,406,428	\$ 37,773,983	1.65%	not available	not available
6/30/2013	1,313,598	33,759,069	32,445,471	3.89%	not available	not available
6/30/2015	1,737,094	39,890,968	38,153,874	4.35%	not available	not available

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Actual Contribution</b>	<b>Percent Contributed</b>
2011	\$ 2,539,731	\$ 748,109	29%
2012	2,610,051	990,843	38%
2013	2,033,031	949,729	47%
2014	2,013,328	902,793	45%
2015	2,272,412	657,183	29%
2016	2,252,823	732,319	33%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Basis of Accounting**

Budgets for the General and Special Revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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**CITY OF NORTON SHORES**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**

**JUNE 30, 2016**

	<b>Special Revenue</b>				
	<b><u>Local Streets</u></b>	<b><u>Municipal Road</u></b>	<b><u>Solid Waste</u></b>	<b><u>Building</u></b>	<b><u>Community Development Program</u></b>
<b>Assets</b>					
Cash and pooled investments	\$ 46,451	\$ 481,296	\$ 177,787	\$ 350,654	\$ 2,058
Accounts receivable	-	-	1,495	75	-
Special assessments receivable	-	-	-	-	-
Prepaid items	-	-	-	2,455	-
Due from other governments	<u>84,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,756</u>
<b>Total assets</b>	<b><u>\$ 130,931</u></b>	<b><u>\$ 481,296</u></b>	<b><u>\$ 179,282</u></b>	<b><u>\$ 353,184</u></b>	<b><u>\$ 96,814</u></b>
<b>Liabilities, deferred inflows, and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 77	\$ -	\$ 10,725	\$ 23,333	\$ 11,267
Accrued liabilities	4,435	-	13,292	5,731	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,679</u>
<b>Total liabilities</b>	<b><u>4,512</u></b>	<b><u>-</u></b>	<b><u>24,017</u></b>	<b><u>29,064</u></b>	<b><u>86,946</u></b>
<b>Deferred inflows</b>					
Unavailable revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>					
Nonspendable					
Permanent fund corpus	-	-	-	-	-
Prepaid items	-	-	-	2,455	-
Restricted					
Streets	126,419	481,296	-	-	-
Solid waste	-	-	155,265	-	-
Building	-	-	-	321,665	-
Community development	-	-	-	-	9,868
Assigned					
Capital Projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund balances</b>	<b><u>126,419</u></b>	<b><u>481,296</u></b>	<b><u>155,265</u></b>	<b><u>324,120</u></b>	<b><u>9,868</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$ 130,931</u></b>	<b><u>\$ 481,296</u></b>	<b><u>\$ 179,282</u></b>	<b><u>\$ 353,184</u></b>	<b><u>\$ 96,814</u></b>

		<b>Capital Projects</b>		<b>Permanent</b>	
<b>Public Safety</b>	<b>Local Improvement</b>	<b>Industrial Improvement</b>	<b>Cemetery Care</b>	<b>Total</b>	
\$ -	\$ 1,339,720	\$ 496,327	\$ 733,948	\$ 3,628,241	
-	2,130	-	-	3,700	
-	49,491	-	-	49,491	
-	13,491	-	-	15,946	
-	-	-	-	179,236	
<b>\$ -</b>	<b>\$ 1,404,832</b>	<b>\$ 496,327</b>	<b>\$ 733,948</b>	<b>\$ 3,876,614</b>	
\$ -	\$ 1,683	\$ -	\$ -	\$ 47,085	
-	-	-	-	23,458	
-	-	-	-	75,679	
-	1,683	-	-	146,222	
-	49,491	-	-	49,491	
-	-	-	733,948	733,948	
-	13,491	-	-	15,946	
-	-	-	-	607,715	
-	-	-	-	155,265	
-	-	-	-	321,665	
-	-	-	-	9,868	
-	1,340,167	496,327	-	1,836,494	
-	1,353,658	496,327	733,948	3,680,901	
<b>\$ -</b>	<b>\$ 1,404,832</b>	<b>\$ 496,327</b>	<b>\$ 733,948</b>	<b>\$ 3,876,614</b>	

**CITY OF NORTON SHORES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue				
	<u>Local Streets</u>	<u>Municipal Road</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Community Development Program</u>
<b>Revenues</b>					
Taxes	\$ -	\$ 1,181,751	\$ 871,921	\$ -	\$ -
Intergovernmental revenues					
Federal	-	-	-	-	198,035
State	513,698	-	-	-	-
Licenses and permits	-	-	-	455,772	-
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment earnings	17,598	48,026	16,100	16,848	-
Miscellaneous	1,458	-	3,277	2,643	10,050
<b>Total revenues</b>	<u>532,754</u>	<u>1,229,777</u>	<u>891,298</u>	<u>475,263</u>	<u>208,085</u>
<b>Expenditures</b>					
Current					
Public safety	-	-	-	468,824	-
Highway and streets	352,626	-	-	-	-
Sanitation	-	-	719,408	-	-
Administration	108,468	-	-	-	-
Community development	-	-	-	-	199,814
Capital outlay	-	1,342,800	-	-	-
<b>Total expenditures</b>	<u>461,094</u>	<u>1,342,800</u>	<u>719,408</u>	<u>468,824</u>	<u>199,814</u>
Revenues over (under) expenditures	<u>71,660</u>	<u>(113,023)</u>	<u>171,890</u>	<u>6,439</u>	<u>8,271</u>
Other financing sources (uses)					
Transfers out	-	-	-	-	-
Net changes in fund balances	71,660	(113,023)	171,890	6,439	8,271
<b>Fund balances, beginning of year</b>	<u>54,759</u>	<u>594,319</u>	<u>(16,625)</u>	<u>317,681</u>	<u>1,597</u>
<b>Fund balances, end of year</b>	<u>\$ 126,419</u>	<u>\$ 481,296</u>	<u>\$ 155,265</u>	<u>\$ 324,120</u>	<u>\$ 9,868</u>

	Capital Projects			Permanent	
<u>Public Safety</u>	<u>Local Improvement</u>	<u>Industrial Improvement</u>	<u>Cemetery Care</u>	<u>Total</u>	
\$ 1,063,601	\$ -	\$ -	\$ -	\$ 3,117,273	
-	-	-	-	198,035	
-	-	-	-	513,698	
-	-	-	-	455,772	
-	-	-	44,557	44,557	
-	8,764	-	-	8,764	
6,496	578	-	37,693	143,339	
-	-	-	-	17,428	
<u>1,070,097</u>	<u>9,342</u>	<u>-</u>	<u>82,250</u>	<u>4,498,866</u>	
-	-	-	-	468,824	
-	-	-	-	352,626	
-	-	-	-	719,408	
-	-	-	-	108,468	
-	-	-	-	199,814	
-	8,764	-	-	1,351,564	
-	8,764	-	-	3,200,704	
<u>1,070,097</u>	<u>578</u>	<u>-</u>	<u>82,250</u>	<u>1,298,162</u>	
<u>(1,070,097)</u>	<u>-</u>	<u>-</u>	<u>(37,693)</u>	<u>(1,107,790)</u>	
-	578	-	44,557	190,372	
-	1,353,080	496,327	689,391	3,490,529	
<u>\$ -</u>	<u>\$ 1,353,658</u>	<u>\$ 496,327</u>	<u>\$ 733,948</u>	<u>\$ 3,680,901</u>	

# CITY OF NORTON SHORES

## LOCAL STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 552,195	\$ 552,195	\$ 513,698	\$ (38,497)
Investment earnings	-	-	17,598	17,598
Miscellaneous	1,000	1,000	1,458	458
<b>Total revenues</b>	<u>553,195</u>	<u>553,195</u>	<u>532,754</u>	<u>(20,441)</u>
<b>Expenditures</b>				
Current				
Highway and streets	404,800	362,300	352,626	9,674
Administration	107,500	108,470	108,468	2
<b>Total expenditures</b>	<u>512,300</u>	<u>470,770</u>	<u>461,094</u>	<u>9,676</u>
Net changes in fund balance	40,895	82,425	71,660	(10,765)
<b>Fund balance, beginning of year</b>	<u>54,759</u>	<u>54,759</u>	<u>54,759</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 95,654</u>	<u>\$ 137,184</u>	<u>\$ 126,419</u>	<u>\$ (10,765)</u>

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,188,555	\$ 1,188,555	\$ 1,181,751	\$ (6,804)
Investment earnings	25,000	25,000	48,026	23,026
<b>Total revenues</b>	<u>1,213,555</u>	<u>1,213,555</u>	<u>1,229,777</u>	<u>16,222</u>
<b>Expenditures</b>				
Capital outlay	<u>1,649,488</u>	<u>1,461,495</u>	<u>1,342,800</u>	<u>118,695</u>
Net changes in fund balance	(435,933)	(247,940)	(113,023)	134,917
<b>Fund balance, beginning of year</b>	<u>594,319</u>	<u>594,319</u>	<u>594,319</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 158,386</u>	<u>\$ 346,379</u>	<u>\$ 481,296</u>	<u>\$ 134,917</u>

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 877,176	\$ 869,846	\$ 871,921	\$ 2,075
Investment earnings	35,000	35,000	16,100	(18,900)
Miscellaneous	3,500	3,500	3,277	(223)
<b>Total revenues</b>	915,676	908,346	891,298	(17,048)
<b>Expenditures</b>				
Current				
Sanitation	767,952	722,262	719,408	2,854
Net changes in fund balance	147,724	186,084	171,890	(14,194)
<b>Fund balance (deficit), beginning of year</b>	(16,625)	(16,625)	(16,625)	-
<b>Fund balance, end of year</b>	<u>\$ 131,099</u>	<u>\$ 169,459</u>	<u>\$ 155,265</u>	<u>\$ (14,194)</u>

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 603,000	\$ 559,000	\$ 455,772	\$ (103,228)
Investment earnings	5,000	5,000	16,848	11,848
Miscellaneous	2,000	2,000	2,643	643
<b>Total revenues</b>	610,000	566,000	475,263	(90,737)
<b>Expenditures</b>				
Current				
Public safety	542,713	553,139	468,824	84,315
Net changes in fund balance	67,287	12,861	6,439	(6,422)
<b>Fund balance, beginning of year</b>	317,681	317,681	317,681	-
<b>Fund balance, end of year</b>	<u>\$ 384,968</u>	<u>\$ 330,542</u>	<u>\$ 324,120</u>	<u>\$ (6,422)</u>

**CITY OF NORTON SHORES**

**COMMUNITY DEVELOPMENT PROGRAM FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
Federal	\$ 105,589	\$ 105,589	\$ 198,035	\$ 92,446
Miscellaneous	-	-	10,050	10,050
<b>Total revenues</b>	105,589	105,589	208,085	102,496
<b>Expenditures</b>				
Current				
Community development	107,186	107,186	199,814	(92,628)
Net changes in fund balance	(1,597)	(1,597)	8,271	9,868
<b>Fund balance, beginning of year</b>	1,597	1,597	1,597	-
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 9,868	\$ 9,868

**CITY OF NORTON SHORES**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,081,235	\$ 1,081,235	\$ 1,063,601	\$ (17,634)
Investment earnings	-	-	6,496	6,496
<b>Total revenues</b>	1,081,235	1,081,235	1,070,097	(11,138)
<b>Expenditures</b>				
Current				
Public safety	-	-	-	-
Revenues over (under) expenditures	1,081,235	1,081,235	1,070,097	(11,138)
Other financing source (uses)				
Transfers out	(1,081,235)	(1,081,235)	(1,070,097)	11,138
Net changes in fund balance	-	-	-	-
<b>Fund balance, beginning of year</b>	-	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF NORTON SHORES**

**AGENCY FUNDS  
COMBINING BALANCE SHEET**

**JUNE 30, 2016**

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	<u>Current Tax Fund</u>	<u>Trust and Agency</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments	\$ 1	\$ 115,914	\$ 115,915
<b>Liabilities</b>			
Accounts payable	\$ 1	\$ -	\$ 1
Due to other governmental units	-	115,914	115,914
<b>Total liabilities</b>	\$ 1	\$ 115,914	\$ 115,915

**CITY OF NORTON SHORES**

**TAX INCREMENT FINANCING AUTHORITY  
BALANCE SHEET/STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	<b>Governmental</b>		
	<b>Fund Type</b>		<b>Statement</b>
	<b>General</b>		<b>of</b>
	<b>Fund</b>	<b>Adjustments</b>	<b>Net Position</b>
<b>Assets</b>			
Cash and pooled investments	\$ 4,070,448	\$ -	\$ 4,070,448
Due from other governments	1,689	-	1,689
Prepaid items	18	-	18
Capital assets			
Land	-	456,627	456,627
Depreciable capital assets, net	-	<u>763,652</u>	<u>763,652</u>
<b>Total assets</b>	<b><u>\$ 4,072,155</u></b>	<b>1,220,279</b>	<b><u>5,292,434</u></b>
 <b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 121,293	-	121,293
Accrued liabilities	<u>8</u>	-	<u>8</u>
<b>Total liabilities</b>	<u>121,301</u>		<u>121,301</u>
 <b>Fund balance</b>			
Nonspendable			
Prepaid items	18	(18)	-
Unassigned	<u>3,950,836</u>	(3,950,836)	-
<b>Total liabilities and fund balances</b>	<b><u>\$ 4,072,155</u></b>		
 <b>Net position</b>			
Net investment in capital assets			1,220,279
Unrestricted			<u>3,950,854</u>
<b>Total net position</b>			<b><u>\$ 5,171,133</u></b>

**CITY OF NORTON SHORES**

**TAX INCREMENT FINANCING AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE/STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

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	<b>Governmental <u>Fund Type</u> General <u>Fund</u></b>	<b><u>Adjustments</u></b>	<b>Statement of <u>Activities</u></b>
<b>Revenues</b>			
Taxes	\$ 1,438,377	\$ -	\$ 1,438,377
<b>Expenditures/expenses</b>			
Current			
General government	<u>867,691</u>	<u>22,492</u>	<u>890,183</u>
Net changes in fund balance	570,686	(570,686)	
Change in net position		(548,194)	548,194
<b>Fund balance/net position, beginning of year</b>	<u>3,380,168</u>		<u>4,622,939</u>
<b>Fund balance/net position, end of year</b>	<u>\$ 3,950,854</u>		<u>\$ 5,171,133</u>

**CITY OF NORTON SHORES**

**BROWNFIELD REDEVELOPMENT AUTHORITY  
BALANCE SHEET/STATEMENT OF NET POSITION**

**JUNE 30, 2016**

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	<b>Governmental Fund Type General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash and pooled investments	<u>\$ 236,208</u>	\$ -	\$ 236,208
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	<u>\$ -</u>	-	<u>-</u>
<b>Fund balance</b>			
Unassigned	<u>236,208</u>	(236,208)	-
<b>Total liabilities and fund balances</b>	<u>\$ 236,208</u>		
<b>Net position</b>			
Unrestricted			<u>\$ 236,208</u>

# CITY OF NORTON SHORES

## **BROWNFIELD REDEVELOPMENT AUTHORITY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>Governmental</u> <u>Fund Type</u>		<u>Statement</u> <u>of</u> <u>Activities</u>
	<u>General</u> <u>Fund</u>	<u>Adjustments</u>	
<b>Revenues</b>			
Taxes	\$ 121,522	\$ -	\$ 121,522
<b>Expenditures/expenses</b>			
Current			
General government	<u>132,702</u>	-	<u>132,702</u>
Net changes in fund balance	(11,180)	11,180	
Change in net position		11,180	(11,180)
<b>Fund balance/net position, beginning of year</b>	<u>247,388</u>		<u>247,388</u>
<b>Fund balance/net position, end of year</b>	<u>\$ 236,208</u>		<u>\$ 236,208</u>