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LOCAL AUDIT & FINANCE DIV.

# City of Norton Shores

61-7050

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## Financial Statements and Supplemental Material Year Ended June 30, 2004

**PL** **PRIDNIA**  
**LAPRES, PLLC**  
ACCOUNTANTS & CONSULTANTS

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Norton Shores, Michigan</b>	County <b>Muskegon</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>9/21/04</b>	Date Accountant Report Submitted to State: <b>10/27/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes  No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes  No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes  No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes  No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes  No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes  No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes  No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes  No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes  No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Pridnia LaPres, PLLC</b>			
Street Address <b>801 W. Norton Ave.</b>		City <b>Muskegon</b>	State <b>MI</b>
Accountant Signature <i>Pridnia LaPres, PLLC</i>		ZIP <b>49441</b>	Date <b>10/22/04</b>

**CITY OF NORTON SHORES  
MICHIGAN**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2004**

**Prepared by  
Finance Department**

**Russell A. Larsen  
Finance Director**

**Michael D. Huston  
Controller/Treasurer**

# Comprehensive Annual Financial Report City of Norton Shores

June 30, 2004

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# Comprehensive Annual Financial Report City of Norton Shores

June 30, 2004

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Norton Shores' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 7 through 16 and pages 56 through 59 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norton Shores' basic financial statements. The combining funds statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2004, on our consideration of the City of Norton Shores' internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Prudnia Latner, PLLC*

Muskegon, Michigan  
September 21, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Norton Shores, Michigan, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the City of Norton Shores for the fiscal year ended June 30, 2004. Please read this narrative in conjunction with the review of our financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City of Norton Shores exceeded its liabilities at the close of the fiscal year by \$54,763,850 (net assets). Of this amount, \$20,688,238 (unrestricted or undesignated net assets) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets increased by \$1,455,105.
- As of the close of its current fiscal year, the City of Norton Shores' governmental funds reported a combined ending net assets of \$12,936,483, an increase of \$655,605 in comparison with the preceding fiscal year. Approximately 59%, or \$7,593,872 is available for spending at the City's discretion (undesignated net assets).
- At the end of the current fiscal year, the undesignated fund balance for the general fund was \$839,827, or 11% of total general fund expenditures.
- The City of Norton Shores total debt decreased by \$1,217,487, or 7%, during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Norton Shores' basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains 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 of Norton Shores' finances in a manner similar to a private-sector business. These statements are presented on the full accrual basis of accounting, which when viewed from the economic resources management focus can be used to determine whether the City has improved or deteriorating finances.

The "statement of net assets" presents information on all of the City of Norton Shores' assets and liabilities, with the difference between the two being reported as "net assets". Over the years, increases or decreases in net assets may serve as one indicator of the change in the financial condition of the City.

The "statement of activities" presents how the net assets changed during the period just ended. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Example of timing differences is uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City of Norton Shores that are primarily supported by tax and intergovernmental pass through revenues (*governmental activities*) from other functions that were created and intended to recover most or all of their costs through user fees and charges for services (*business-type activities*). The government activities include legislative, general city government, public safety, highways and streets, community development, culture, recreation, and debt service. The business type activities include water and sewer utilities and equipment maintenance and replacement services.

The government-wide financial statements include not only the City of Norton Shores (*the primary government*) but also the legally separate Tax Increment Financing and Brownfield Redevelopment Authorities. The boards of these organizations are appointed by the City and there is a potential for liability to the City. The financial information of these component units is reported separately from the financial information of the primary government itself.

### **Reporting on the City's major funds**

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control and reporting of resources that are segregated for a specific purpose or activity with defined objectives. The City of Norton Shores is required by State law to use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Norton Shores are 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 the balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's short term financing needs.

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

The City of Norton Shores maintains over fifteen individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, and capital improvement fund. All of these funds are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report.

The City of Norton Shores adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparisons (original and final) have been provided for the major funds to demonstrate compliance with the budgets as required supplementary information. A comparison of budget to actual expenditures is provided for all non-major governmental funds in the combining financial statements - governmental activities by fund type.

**Proprietary funds.** The City of Norton Shores 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 operations. City internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for equipment maintenance and replacement services. Because these services predominantly benefit governmental rather than business-type activities, 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 separate information for the water and sewer funds which is considered a major fund of the City. Conversely, the internal service fund is presented in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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 operations. The accounting used for fiduciary funds is like that used for proprietary funds (full accrual).

**Notes to the basic financial statements.** The notes provide additional information that is important 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 provides certain required supplementary information concerning the City's budgetary information as it relates to the actual expended and certain pension information with the corresponding trend data.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

### **Government-wide Financial Analysis**

As noted previously, net assets may serve as a useful indicator of the City's overall financial health. The City of Norton Shores' assets exceed liabilities by \$54,763,850 at the close of fiscal year 2004.

The largest portion of net assets in the City (47%) are its fixed assets (land, buildings, machinery and equipment), less related debt outstanding used to acquire these assets. The City uses these fixed assets to provide services to City residents and, therefore, are not available for disposal to fund future projects or operations. Although the City's investment in fixed assets is reported net of capital debt, it is noted that resources needed to retire this debt must come from future sources of revenue, as the assets themselves can't be used to liquidate these obligations.

## CITY OF NORTON SHORES NET ASSETS

Major Categories	Governmental Activities 2004	Governmental Activities 2003	Business- Type Activities 2004	Business- Type Activities 2003	Total 2004	Total 2003
Cash and investments	\$ 6,923,788	\$ 7,533,036	\$ 1,336,400	\$ 1,133,607	\$ 8,260,188	\$ 8,666,643
Receivables	1,431,977	1,027,607	2,272,743	2,522,183	3,704,720	3,549,790
Other current assets	589,574	275,353	165,478	30,089	755,052	305,442
Long term assets	-	-	17,641,243	16,821,074	17,641,243	16,821,074
Fixed assets	7,269,889	7,055,875	33,833,154	34,534,945	41,103,043	41,590,820
<b>Total Assets</b>	<b>16,215,228</b>	<b>15,891,871</b>	<b>55,249,018</b>	<b>55,041,898</b>	<b>71,464,246</b>	<b>70,933,769</b>
Other liabilities	897,505	1,192,853	293,804	677,928	1,191,309	1,870,781
Long-term liabilities	2,381,240	2,418,140	13,127,847	13,326,103	15,509,087	15,744,243
<b>Total Liabilities</b>	<b>3,278,745</b>	<b>3,610,993</b>	<b>13,421,651</b>	<b>14,004,031</b>	<b>16,700,396</b>	<b>17,615,024</b>
Investment in fixed assets – net of related debt	4,888,649	8,223,186	20,705,307	24,716,858	25,593,956	32,940,044
Restricted	453,962	436,158	8,027,694	6,790,078	8,481,656	7,226,236
Unrestricted	7,593,872	3,621,534	13,094,366	9,530,931	20,688,238	13,152,465
<b>Total Net Assets</b>	<b>\$ 12,936,483</b>	<b>\$ 12,280,878</b>	<b>\$ 41,827,367</b>	<b>\$ 41,037,867</b>	<b>\$ 54,763,850</b>	<b>\$ 53,318,745</b>

A portion (15%) of the City's net assets has certain restrictions placed on their use. The remaining balance of unrestricted net assets (\$20,688,238) can be used to meet the City's ongoing obligations to its residents and creditors. A major portion (52%) of the Governmental total assets of the City are cash and cash equivalents (liquid) and short term receivables, which gives us a great ability to meet current obligations of short and long term nature. This ability allows the City to meet changing conditions in the market place as well as changes in the local economy.

**Governmental Activities.** Governmental activities increased the City's net assets by \$655,605. This increase was due primarily to increases in tax revenue or as result of new construction and general market value increases.

Other elements in the increase are as follows:

CITY OF NORTON SHORES CHANGES IN NET ASSETS

Major Categories	Governmental Activities 2004	Governmental Activities 2003	Business- Type Activities 2004	Business- Type Activities 2003	Total 2004	Total 2003
<b>Revenues</b>						
<b>Program Revenues</b>						
Operating grants and contributions	\$ 50,593	\$ 39,917	\$ -	\$ -	\$ 50,593	\$ 39,917
Charges for services	1,493,246	1,469,844	4,382,537	4,321,868	5,875,783	5,791,712
Capital grants-contributions	211,103	157,911	-	-	211,103	157,911
<b>General Revenues</b>						
Taxes	5,825,927	5,472,465	-	-	5,825,927	5,472,465
Special assessments levied	7,536	5,016	570,482	1,238,109	578,018	1,243,125
Licenses and permits	712,828	772,772	-	-	712,828	772,772
Intergovernmental Revenue	3,941,124	3,871,026	-	-	3,941,124	3,871,026
Fines and forfeits	66,947	87,129	-	-	66,947	87,129
Interest income	508,509	374,545	539,755	262,592	1,048,264	637,137
Gain on sale of Equipment	66,737	79,211	-	-	66,737	79,211
Miscellaneous	171,124	944,831	131,433	-	302,557	944,831
Reimbursements	-	180,561	-	107,620	-	288,181
<b>Total Revenues</b>	<b>13,055,674</b>	<b>13,455,228</b>	<b>5,624,207</b>	<b>5,930,189</b>	<b>18,679,881</b>	<b>19,385,417</b>
<b>Expenses</b>						
General government	2,096,904	3,150,513	-	-	2,096,904	3,150,513
Public safety	5,896,018	5,378,885	-	-	5,896,018	5,378,885
Highways and streets	2,344,761	2,445,892	-	-	2,344,761	2,445,892
Sanitation	493,463	612,865	-	-	493,463	612,865
Culture and recreation	602,291	593,725	-	-	602,291	593,725
Administration	987,564	738,474	-	-	987,564	738,474
Community development	145,715	147,597	-	-	145,715	147,597
<b>Debt Service</b>						
Interest	86,022	130,358	-	-	86,022	130,358
Water and sewer	-	-	4,834,707	4,699,526	4,834,707	4,699,526
<b>Total Expenses</b>	<b>12,652,738</b>	<b>13,198,309</b>	<b>4,834,707</b>	<b>4,699,526</b>	<b>17,487,445</b>	<b>17,897,835</b>
<b>Increase in Net Assets before Transfers</b>	<b>402,936</b>	<b>256,919</b>	<b>789,500</b>	<b>1,230,663</b>	<b>1,192,436</b>	<b>1,487,582</b>
<b>Transfers</b>	<b>252,669</b>	<b>263,850</b>	<b>-</b>	<b>-</b>	<b>252,669</b>	<b>263,850</b>
<b>Increase (Decrease) in Net Assets</b>	<b>655,605</b>	<b>520,769</b>	<b>789,500</b>	<b>1,230,663</b>	<b>1,445,105</b>	<b>1,751,432</b>
<b>Net Assets—July 1, 2004</b>	<b>12,280,878</b>	<b>11,760,109</b>	<b>41,037,867</b>	<b>39,807,204</b>	<b>53,318,745</b>	<b>51,567,313</b>
<b>Net Assets—June 30, 2004</b>	<b>\$ 12,936,483</b>	<b>\$ 12,280,878</b>	<b>\$ 41,827,367</b>	<b>\$ 41,037,867</b>	<b>\$ 54,763,850</b>	<b>\$ 53,318,745</b>

**Business-type activities.** Business-type activities increased the City of Norton Shores' net assets by \$789,500 accounting for 66% of the total growth in the government's net assets. Water and sewer installations and connections drove the increase by contributing over \$654,383 to the increase in assets.

### **Financial analysis of the Government's Funds**

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

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

For the current fiscal year, the City of Norton Shores' governmental funds reported combined ending fund balances of \$6,623,635, a decrease of \$147,668 in comparison with the previous year. Approximately 81% of the fund balance (\$5,396,598) constitutes unreserved balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$773,075), 2) pay debt service (\$57,375), and 3) reserve for perpetual care (\$396,587).

The general fund is the chief operating fund of the City of Norton Shores. At the end of the current fiscal year, unreserved fund balance of the general fund and total fund balance was \$997,596. As one measure of the general fund's liquidity, it is useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 13% of total general fund expenditures, while total fund balance also represents 13% of that same amount. This percentage is an decrease of 3% from the prior year.

Major revenue items contributed to the \$547,462 increase in revenues. Property taxes increased \$353,462, intergovernmental revenues increased \$133,966. The majority of revisions to revenue were in the areas of charges for services and investment income. Expenses in the general fund were \$487,510, greater than the previous year, leading to a net decrease in fund balance of \$174,711 over the increase of the previous fiscal year.

**Proprietary Funds.** The City of Norton Shores proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer system were \$13,094,366, with the equipment revolving funding showing unrestricted net assets of \$1,424,199.

**General Fund Budgetary Expenditure Highlights**

The increase between the original budget and the final amended was very small (less than ¼ of 1%) and is briefly summarized as follows:

- Increase in medical insurance costs for all employee groups.
- Increase in pension contribution amounts due to higher salaries and increased amortization expense.

Budgeted expenditures increased approximately \$7,940. As indicated previously, increases in pension and medical costs accounted for nearly all the appropriation increases. Total actual expenses came in over budget and resulting in a current year decrease in the fund balance.

**Capital Asset Administration**

**Capital Assets.** The City of Norton Shores' investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$41,103,043 (net of accumulated depreciation). This involvement in capital assets includes land, buildings, improvements, machinery, equipment, water supply and sanitary sewer collection systems and capitalized interest and engineering. The total decrease in the City's capital assets for the current fiscal year was 1%, net of depreciation. Additions for the fiscal years ended June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 300	\$ -
Buildings	22,654	24,499
Land Improvements	242,009	37,203
Machinery and Equipment	1,001,065	1,114,073
Water Mains and Hydrants	61,146	359,116
Sewers and Lift Stations	43,509	792,203
Construction in Progress	177,340	457,800

## CITY OF NORTON SHORES CAPITAL ASSETS

Major Categories	Governmental Activities 2004	Governmental Activities 2003	Business- Type Activities 2004	Business- Type Activities 2003	Total 2004	Total 2003
Land	\$ 1,875,699	\$ 1,875,399	\$ 250	\$ 250	\$ 1,875,949	\$ 1,875,649
Land improvements	1,245,813	1,003,804	-	-	1,245,813	1,003,804
Buildings and improvements	2,793,652	2,770,998	-	-	2,793,652	2,770,998
Machinery and equipment	9,602,595	8,987,658	114,912	114,912	9,717,507	9,102,570
Regional Water System	-	-	1,510,285	1,510,285	1,510,285	1,510,285
City Water System	-	-	9,253,774	9,192,628	9,253,774	9,192,628
Sewers and lift stations	-	-	35,581,588	35,538,079	35,581,588	35,538,079
Wastewater treatment	-	-	5,400,608	5,400,608	5,400,608	5,400,608
Construction in progress	-	-	4,073,691	3,896,351	4,073,691	3,896,351
<b>Total</b>	<b>\$ 15,517,759</b>	<b>\$ 14,637,859</b>	<b>\$ 55,935,108</b>	<b>\$ 55,653,113</b>	<b>\$ 71,452,867</b>	<b>\$ 70,290,972</b>

Additional information on the City's capital assets can be found in Note 4 of the "Notes to Basic Financial Statements" of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Norton Shores had total bonded debt outstanding of \$15,049,969. Of this amount, only \$100,000 is debt backed by the full faith and credit of the City; the balance of the bonded debt is backed by the limited full faith and credit of the City; that is, existing taxing authority or current revenues for the retirement of outstanding debt.

## CITY OF NORTON SHORES OUTSTANDING DEBT

Major Categories	Governmental Activities 2004	Governmental Activities 2003	Business- Type Activities 2004	Business- Type Activities 2003	Total 2004	Total 2003
General obligation bonds	\$ 100,000	\$ 319,152	\$ -	\$ -	\$ 100,000	\$ 319,152
Limited full faith and credit bonds	1,500,000	1,750,000	13,053,062	13,711,163	14,553,062	15,461,163
CDBG Act 108 loan payable	125,000	145,000	-	-	125,000	145,000
Equipment capital lease payable	271,907	304,237	-	-	271,907	304,237
Accumulated compensated absences	384,333	421,233	74,785	75,789	459,118	497,022
<b>Total</b>	<b>\$ 2,381,240</b>	<b>\$ 2,939,622</b>	<b>\$ 13,127,847</b>	<b>\$ 13,786,952</b>	<b>\$ 15,509,087</b>	<b>\$ 16,726,574</b>

The City's total debt decreased by \$1,217,487. This reduction was due entirely to normal debt payoffs as provided for in the FY-2004 budget.

Additional information on the City of Norton Shores' long-term debt can be found in Note 5 of the notes to the financial statements.

## GENERAL

The economic climate in Muskegon County and West Michigan remains stable. Unemployment and welfare caseloads continue at a low rate, although higher than both the state and federal rates as compared to County statistics. These increases are attributed to the weakening of the industrial base in the West Michigan area and its subsequent loss of jobs to other states and foreign countries. The City of Norton Shores continues to grow and diversify its base and is perceived as a good place to live, work and do business.

Several projects and achievements have contributed to the growth and quality of living in Norton Shores. Some of the more significant are:

Henry Street was reconstructed from Porter to Hile. A left turn lane and a right turn only lane was added on the south bound portion.

Seminole Road reconstruction for the purpose of putting in a left turn lane from Mona Shores High to Henry Street commenced in June 2004.

Forest Park Road was reconstructed to add bike lanes to the existing road.

Water main construction was completed as part of the looping project for a section of Browne and Nassau roads.

### Requests for Information

This financial report is designed to provide a general overview of the City of Norton Shores' 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 City of Norton Shores, Finance Department, 4814 Henry Street, Norton Shores, Michigan 49441, telephone (231) 798-4391.

<i>June 30, 2004</i>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 6,923,788	\$ 1,336,400	\$ 8,260,188
Receivables			
Accounts	133,793	689,516	823,309
Intergovernmental	800,661	-	800,661
Assessments	497,523	1,583,227	2,080,750
Internal balances	203,284	-	203,284
Prepaid items	386,290	36,686	422,976
Inventory of material and supplies	-	128,792	128,792
Restricted assets	-	8,027,694	8,027,694
Capital assets, net of accumulated depreciation	7,269,889	33,833,154	41,103,043
Wastewater facility rights, net of amortization	-	574,443	574,443
Water plant facility rights, net of amortization	-	9,039,106	9,039,106
	<b>\$ 16,215,228</b>	<b>\$ 55,249,018</b>	<b>\$ 71,464,246</b>
<b>Liabilities</b>			
Checks issued against future deposits	\$ 235,696	\$ -	\$ 235,696
Account payables	289,279	74,690	363,969
Accrued payroll	56,023	5,632	61,655
Special agreements payable	-	5,098	5,098
Long-term debt (Note 5)			
Due within one year	403,814	473,446	877,260
Due in more than one year	1,977,426	12,654,401	14,631,827
Unearned revenues	316,507	208,384	524,891
<b>Total Liabilities</b>	<b>3,278,745</b>	<b>13,421,651</b>	<b>16,700,396</b>
<b>Net Assets</b>			
Investment in capital assets net of related debt	4,888,649	20,705,307	25,593,956
Restricted for			
Debt service	57,375	-	57,375
Perpetual care	396,587	-	396,587
Capital improvements	-	8,027,694	8,027,694
Unrestricted	7,593,872	13,094,366	20,688,238
<b>Net Assets</b>	<b>\$ 12,936,483</b>	<b>\$ 41,827,367</b>	<b>\$ 54,763,850</b>



<i>Year ended June 30, 2004</i>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Government activities				
General government	\$ 2,096,904	\$ 931,982	\$ -	\$ -
Public safety	5,896,018	375,375	50,593	-
Highways and streets	2,344,761	-	-	211,103
Sanitation	493,463	-	-	-
Culture and recreation	602,291	185,889	-	-
Administration	987,564	-	-	-
Community development	145,715	-	-	-
Debt service				
Interest	86,022	-	-	-
<b>Total Government Activities</b>	<b>12,652,738</b>	<b>1,493,246</b>	<b>50,593</b>	<b>211,103</b>
<b>Business-Type Activities</b>				
Water and sewer	4,834,707	4,382,537	-	-
<b>Total Primary Government</b>	<b>\$ 17,487,445</b>	<b>\$ 5,875,783</b>	<b>\$ 50,593</b>	<b>\$ 211,103</b>
<b>Component Units</b>	<b>\$ 411,137</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>General Revenues</b>				
Taxes				
Special assessments levied				
Licenses and permits				
Intergovernmental revenue				
Federal				
State				
Fines and forfeits				
Interest income				
Gain on sale of equipment				
Miscellaneous				
Transfers				
<b>Total General Revenues, Special Items, and Transfers</b>				
<b>Change in Net Assets</b>				
<b>Net Assets, at beginning of year</b>				
<b>Net Assets, at end of year</b>				

# City of Norton Shores

## Statement of Activities

Net (Expense) Revenue and Changes in Net Assets				Component Units	
Total	Governmental	Primary Government Business-Type Activities	Total	Tax Increment Finance Authority	Brownfield Redevelopment Authority
\$ 931,982	\$ (1,164,922)	\$ -	\$ (1,164,922)	\$ -	\$ -
425,968	(5,470,050)	-	(5,470,050)	-	-
211,103	(2,133,658)	-	(2,133,658)	-	-
-	(493,463)	-	(493,463)	-	-
185,889	(416,402)	-	(416,402)	-	-
-	(987,564)	-	(987,564)	-	-
-	(145,715)	-	(145,715)	-	-
-	(86,022)	-	(86,022)	-	-
1,754,942	(10,897,796)	-	(10,897,796)	-	-
4,382,537	-	(452,170)	(452,170)	-	-
<u>\$ 6,137,479</u>	<u>(10,897,796)</u>	<u>(452,170)</u>	<u>(11,349,966)</u>	-	-
<u>\$ -</u>				(411,137)	-
	5,825,927	-	5,825,927	833,418	17,600
	7,536	570,482	578,018	-	-
	712,828	-	712,828	-	-
	168,358	-	168,358	-	-
	3,772,766	-	3,772,766	-	-
	66,947	-	66,947	-	-
	508,509	539,755	1,048,264	59,218	-
	66,737	-	66,737	-	-
	171,124	131,433	302,557	-	-
	252,669	-	252,669	(252,669)	-
	11,553,401	1,241,670	12,795,071	639,967	17,600
	655,605	789,500	1,445,105	228,830	17,600
	12,280,878	41,037,867	53,318,745	1,002,939	8,714
	<u>\$ 12,936,483</u>	<u>\$ 41,827,367</u>	<u>\$ 54,763,850</u>	<u>\$ 1,231,769</u>	<u>\$ 26,314</u>

The accompanying notes are an integral part of this statement

<i>June 30, 2004</i>	General Fund	Major Streets Fund	Capital Improvements Fund
<b>Assets</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 426,489	\$ 4,426	\$ 1,582,810
Due from other governments	283,224	439,069	-
Due from other funds	89,986	-	30,441
Receivables			
Accounts	108,355	22,064	94
Assessments	-	-	-
Prepaid items	306,760	15,946	-
<b>Total Assets</b>	<b>\$ 1,214,814</b>	<b>\$ 481,505</b>	<b>\$ 1,613,345</b>
<b>Liabilities</b>			
Checks issued against future deposits	\$ -	\$ 235,696	\$ -
Accounts payable	120,746	150,869	3,940
Accrued payroll	42,355	3,756	662
Unearned revenues	54,117	4,430	16,155
<b>Total Liabilities</b>	<b>217,218</b>	<b>394,751</b>	<b>20,757</b>
<b>Fund Balances</b>			
Reserved for debt service	-	-	-
Reserved for perpetual care	-	-	-
Unreserved			
Designated for subsequent year's expenditures	157,769	-	415,306
Undesignated	839,827	86,754	1,177,282
<b>Total Fund Balances</b>	<b>997,596</b>	<b>86,754</b>	<b>1,592,588</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,214,814</b>	<b>\$ 481,505</b>	<b>\$ 1,613,345</b>

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

- Capital assets used for governmental activities are not current financial resources and, therefore, are not reported in the Governmental funds Balance Sheet
- Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment leasing to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Governmental-wide Statement of Net Assets
- Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental funds Balance Sheet

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**Net Assets of Governmental Activities**

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# City of Norton Shores

## Governmental Funds

### Balance Sheet

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,511,896	\$ 5,525,621
78,368	800,661
82,857	203,284
2,165	132,678
497,523	497,523
27,942	350,648
<u>\$ 4,200,751</u>	<u>\$ 7,510,415</u>
\$ -	\$ 235,696
8,285	283,840
3,964	50,737
241,805	316,507
254,054	886,780
57,375	57,375
396,587	396,587
200,000	773,075
3,292,735	5,396,598
<u>3,946,697</u>	6,623,635
<u>\$ 4,200,751</u>	
	6,036,563
	2,657,525
	<u>(2,381,240)</u>
	<u>\$12,936,483</u>

*The accompanying notes are an integral part of this statement.*

<i>Year ended June 30, 2004</i>	General Fund	Major Streets Fund	Capital Improvements Fund
<b>Revenues</b>			
Taxes	\$ 3,673,721	\$ -	\$ 1,356,592
Special assessments levied	-	-	-
Licenses and permits	220,587	-	-
Intergovernmental revenues	1,946,036	1,631,305	4,000
Charges for services	1,463,646	-	-
Fines and forfeits	66,947	-	-
Interest income	104,398	12,781	109,340
Miscellaneous revenue	38,698	35,550	17,950
<b>Total Revenues</b>	<b>7,514,033</b>	<b>1,679,636</b>	<b>1,487,882</b>
<b>Expenditures</b>			
General government	2,284,915	-	-
Public safety	4,494,177	-	-
Highways and streets	307,361	1,675,387	-
Sanitation	-	-	-
Culture and recreation	602,291	-	-
Administration	-	242,305	536,287
Community development	-	-	-
Capital outlay	-	-	847,404
Debt service	-	-	-
Principal payments	-	-	32,330
Interest	-	-	13,965
<b>Total Expenditures</b>	<b>7,688,744</b>	<b>1,917,692</b>	<b>1,429,986</b>
Revenues over (under) expenditures	(174,711)	(238,056)	57,896
<b>Other Financing Sources</b>			
Interfund transfers in	-	320,927	-
Interfund transfers out	-	-	(410,927)
<b>Total Other Financing Sources</b>	<b>-</b>	<b>320,927</b>	<b>(410,927)</b>
Revenues and other sources over (under) expenditures and other uses	(174,711)	82,871	(353,031)
<b>Fund Balance, at beginning of year</b>	<b>1,172,307</b>	<b>3,883</b>	<b>1,945,619</b>
<b>Fund Balance, at end of year</b>	<b>\$ 997,596</b>	<b>\$ 86,754</b>	<b>\$ 1,592,588</b>

# City of Norton Shores

## Governmental Funds

### Statement of Revenues, Expenditures and Changes in Fund Balance

Non-Major Funds	Total Governmental Funds
\$ 795,614	\$ 5,825,927
7,536	7,536
492,241	712,828
621,479	4,202,820
29,600	1,493,246
-	66,947
217,127	443,646
56,795	148,993
<u>2,220,392</u>	<u>12,901,943</u>
18,417	2,303,332
476,069	4,970,246
362,013	2,344,761
493,463	493,463
-	602,291
208,972	987,564
145,715	145,715
-	847,404
489,152	521,482
72,057	86,022
<u>2,265,858</u>	<u>13,302,280</u>
(45,466)	(400,337)
342,669	663,596
-	(410,927)
<u>342,669</u>	<u>252,669</u>
297,203	(147,668)
<u>3,649,494</u>	<u>6,771,303</u>
<u>\$ 3,946,697</u>	<u>\$ 6,623,635</u>

*The accompanying notes are an integral part of this statement.*

# City of Norton Shores

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

*Year ended June 30, 2004*

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**Net Change in Fund Balances – Total Governmental Funds** **\$(147,668)**

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense.

Capital outlay	847,404
Depreciation expense	(669,995)

The repayment of long-term debt consumes current financial resources but does not affect net assets.	521,482
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The accrual of sick and annual wages does not consume current financial resources but does reduce net assets, therefore, they are not reported in governmental funds	36,900
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The net revenue of certain activities of internal service funds is reported with governmental activities	67,482
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**Change in Net Assets of Governmental Activities** **\$ 655,605**

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*The accompanying notes are an integral part of this statement.*

# City of Norton Shores

## Proprietary Funds

### Statement of Net Assets

	Governmental Activities	
	Water & Sewer Funds	Internal Service Funds
<i>June 30, 2004</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 1,336,400	\$ 1,398,167
Receivables		
Accounts	689,516	1,115
Assessments	1,583,227	-
Prepaid items	36,686	35,642
Inventory of material and supplies	128,792	-
Restricted assets	8,027,694	-
Property, plant and equipment, net of accumulated depreciation (Note 4)	33,833,154	1,233,326
Wastewater facility rights, net of amortization of \$2,084,817 in 2004 and \$1,941,206 in 2003	574,443	-
Water plant facility rights, net of amortization of \$379,195 in 2004 and \$245,665 in 2003	9,039,106	-
<b>Total Assets</b>	<b>\$ 55,249,018</b>	<b>\$ 2,668,250</b>

*The accompanying notes are an integral part of this statement.*

**This Statement Covers More Than One Page.**

# City of Norton Shores

## Proprietary Funds

### Statement of Net Assets

	Governmental Activities	
	Water & Sewer Funds	Internal Service Funds
<i>June 30, 2004</i>		
<b>Liabilities</b>		
Accounts payable	\$ 74,690	\$ 5,439
Accrued payroll	5,632	1,527
Special agreements payable	5,098	-
Deferred revenues	208,384	-
Long-term debt (Note 5)		
Due within one year	473,446	-
Due in more than one year	12,654,401	3,759
<b>Total Liabilities</b>	13,421,651	10,725
<b>Net Assets</b>		
Investment in capital assets, net of related debt	20,705,307	1,233,326
Restricted for capital improvements	8,027,694	-
Unrestricted	13,094,366	1,424,199
<b>Total Net Assets</b>	\$ 41,827,367	\$ 2,657,525

*The accompanying notes are an integral part of this statement.*

# City of Norton Shores

## Proprietary Funds

### Statement of Revenues, Expenses and Changes in Net Assets

	Governmental Activities	
	Water & Sewer Funds	Internal Service Funds
<i>Year ended June 30, 2004</i>		
<b>Operating Revenues</b>		
Water sales	\$ 2,505,383	\$ -
Sewer service charges	1,793,253	-
Water service installations and direct sewer connections	654,383	-
Penalties on utility billings	41,863	-
Billings to departments	-	907,208
Miscellaneous operating revenues	89,570	22,131
<b>Total Operating Revenues</b>	5,084,452	929,339
<b>Total Operating Expenses</b>	4,125,676	993,466
Operating profit (loss)	958,776	(64,127)
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	539,755	64,872
Gain on sale of equipment	-	66,737
Interest expense	(709,031)	-
<b>Total Non-Operating Revenues (Expenses)</b>	(169,276)	131,609
<b>Change in Net Assets</b>	789,500	67,482
<b>Net Assets, at beginning of year</b>	41,037,867	2,590,043
<b>Net Assets, at end of year</b>	\$ 41,827,367	\$ 2,657,525

*The accompanying notes are an integral part of this statement.*

# City of Norton Shores

## Proprietary Funds

### Statement of Cash Flows

	Governmental	
	Water & Sewer Funds	Internal Service Funds
<i>Year ended June 30, 2004</i>		
<b>Cash Flows from Operating Activities</b>		
Operating income (loss)	\$ 958,776	\$ (64,127)
Adjustments to reconcile operating income to net cash provided by operations		
Increase in deferred revenue	149,597	-
Depreciation and amortization	1,273,189	382,019
Changes in assets and liabilities		
Accounts receivable	28,437	92
Prepaid expenses	(6,597)	8,138
Inventory	(748)	-
Accounts payable	(76,648)	1,460
Accrued liabilities	3,776	1,809
<b>Total Cash Flows from Operating Activities</b>	<b>2,329,782</b>	<b>329,391</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal payments on long-term debt	(659,105)	-
Interest payments on long-term debt	(709,031)	-
Proceeds from sale of fixed assets	-	66,737
Purchase of fixed assets	-	(418,624)
Construction of water and sewer lines	(281,995)	-
Collections of special assessments	221,003	-
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<b>(1,429,128)</b>	<b>(351,887)</b>
<b>Cash Flows from Investing Activities</b>		
Interest income	539,755	64,872
<b>Increase in Cash</b>	<b>1,440,409</b>	<b>42,376</b>
<b>Cash, at beginning of year</b>	<b>7,923,685</b>	<b>1,355,791</b>
<b>Cash, at end of year</b>	<b>\$ 9,364,094</b>	<b>\$ 1,398,167</b>

*The accompanying notes are an integral part of this statement.*

**City of Norton Shores**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**

<i>June 30, 2004</i>	Agency Funds
<b>Assets</b>	
Cash and cash investments	\$ 298,483
Due from other governments	335,418
Accounts receivable	13
	<hr/>
	\$ 633,914
<b>Liabilities</b>	
Due to other funds	\$ 203,284
Performance deposits	251,219
Due to other governments	179,411
	<hr/>
	\$ 633,914
	<hr/>

# City of Norton Shores

## Notes to Basic Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### **Financial Reporting Entity**

The City of Norton Shores was incorporated April 16, 1968, under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Mayor-Council form of government with a professional City Administrator. The City of Norton Shores provides the following services as authorized by its charter or state law: General Administrative Services, Public Safety, Highway and Street Maintenance, Sanitation, Culture, Recreation and Other Governmental Functions. The accounting policies of the City of Norton Shores conform to generally accepted accounting principles as applicable to cities. As required by generally accepted accounting principles, Governmental Accounting Standards Board (GASB) 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Component Units – In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Discretely presented component units have a June 30<sup>th</sup> year end.

*Discretely presented component units* – The Component Units column in the combined financial statements includes the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

# City of Norton Shores

## Notes to Basic Financial Statements

The Economic Development Corporation of the City of Norton Shores (EDC) was incorporated as a nonprofit corporation pursuant to the provisions of Act 338, Public Acts of 1974, of the State of Michigan as amended. Members of the EDC are appointed by the City Council. The EDC is fiscally dependent on the City since the City Council approves the EDC budget. Organized primarily to expand the City's industrial base, the EDC acquired, developed and marketed an industrial park in the City and provides for other economic development related projects. With the completion of infrastructure lot sales in its Phase II Development, assets of the EDC were transferred to the City and have been classified as the Industrial Development Fund in the Capital Project Funds to allow for fund accumulation to finance future industrial development.

The Tax Increment Financing Authority of the City of Norton Shores (TIFA) was incorporated as a nonprofit corporation pursuant to the provisions of Act 450, Public Acts of 1980, of the State of Michigan, as amended. Organized primarily to expand the City's industrial park, the TIFA district was expanded in late 1986 to provide for commercial and industrial development along the U.S. 31 corridor in the eastern part of the City. For financial reporting purposes, the TIFA is reported as a discretely presented component unit in that members of the TIFA are approved by the City Council and the TIFA is fiscally dependent on the City since the City Council approves the TIFA budget. The TIFA is presented as a governmental fund type.

The Brownfield Redevelopment Authority of the City of Norton Shores (Authority) was incorporated as a nonprofit corporation pursuant to the provisions of Act 381, Public Acts of 1996, of the State of Michigan, as amended. The objective of the Authority is to facilitate Brownfield Redevelopment by providing funding for eligible environmental activities and allowing developers to obtain a Single Business Tax Credit for eligible investments at Brownfield properties. For financial reporting purposes, the Authority is reported as a discretely presented component unit in that members of the Authority are approved by the City Council and the Authority is fiscally dependent on the City since the City Council approves the Authority budget. The Authority is presented as a governmental fund type.

# City of Norton Shores

## Notes to Basic Financial Statements

### *Fund Accounting*

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

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

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

# City of Norton Shores

## Notes to Basic Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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. 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.

# City of Norton Shores

## Notes to Basic Financial Statements

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

*General Fund* – The General Fund is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

*Major Street Fund* – The Major Street Fund is used to account for motor fuel tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City’s major streets.

*Capital Improvements Fund* – The Capital Improvements 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 proprietary fund:

*Water and Sewer Fund* – The Water and Sewer Fund is used to account for user fees, contributed capital and related revenues for the acquisition and operation of the Water and Sewer Utility System.

### **Budgets**

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

# City of Norton Shores

## Notes to Basic Financial Statements

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchases of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

### **Cash and Investments**

Cash includes amounts in demand deposits as well as short-term investments.

Cash equivalents are short-term, highly liquid investments that have the following characteristics:

- Investments that are readily convertible to known amounts of cash
- Investments that mature in such a short period of time that their values are effectively immune from changes in interest rates
- Original maturity of three months or less

Investments are stated at fair value. The City maintains a pooled investment fund to account for all investments of the various City funds. Investments within this pooled investment fund are shown on the balance sheets of each individual fund as cash and cash equivalents.

### **Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

# City of Norton Shores

## Notes to Basic Financial Statements

### Property Taxes

Property taxes attach as enforceable liens on property as of December 31<sup>st</sup>. Taxes are levied on July 1<sup>st</sup> of the following year and are payable from the date of levy through August 31<sup>st</sup> without penalty and until March 1<sup>st</sup> of the following year with penalty. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date (July 1<sup>st</sup>).

The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the Trust and Agency Fund. The City is permitted by charter or state law without voter approval to levy taxes up to \$7.00 per \$1,000 of state equalized valuation for general governmental purposes, \$3.00 for sanitation and the amount required to service the General Obligation Debt. The tax rate to finance City services for the year ended June 30, 2004 was \$8.1837 per \$1,000 of taxable valuation.

### Inventories

Inventory in the water and sewer fund is valued at the lower of cost (first-in, first-out) or market. Inventory in the governmental funds consist of expendable supplies which are recorded as an expenditure at the time individual inventory items are purchased.

### Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items. These prepaid items are primarily insurance premiums and fiscal year 2005 memberships invoiced prior to July 1, 2004. The City follows the consumption method of accounting in reporting these items and, therefore, no offset by a fund balance reserve is required.

# City of Norton Shores

## Notes to Basic Financial Statements

### Restricted Assets

Certain proceeds of enterprise fund general obligation bonds, as well as certain resources set aside for future sanitary sewer improvements, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or City Council resolution.

### Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

For the year ended June 30, 2004, the City has elected to utilize the transition reporting options for infrastructure assets. As such, retroactive capitalization of infrastructure assets in existence prior to July 1, 2002 are not included in these financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	4-8 years
Furniture and other equipment	10 years

# City of Norton Shores

## Notes to Basic Financial Statements

### Compensated Absences

The liability for compensated absences reported in the city-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements 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 reductions of expenditures/expenses in the fund that is reimbursed.

# City of Norton Shores

## Notes to Basic Financial Statements

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

### Comparative Data

Comparative total data for the prior year has not been presented in the accompanying financial statements.

### Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. **Legal Compliance – Budgets** – During the month of February of each year, all agencies of the City submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared by fund, function and activity on a program basis, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

At the second City Council meeting in April, the proposed budget is presented to the Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations. Any changes in the budget must be within the revenues and reserves estimated as available by the City Administrator or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

# City of Norton Shores

## Notes to Basic Financial Statements

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations were necessary. The supplementary appropriations in all cases were immaterial, consisting primarily of authorized expenditure of funds approved in the prior year but occurring in the current fiscal year. These supplementary appropriations are required due to annual appropriations lapsing at fiscal year end.

### 3. Deposits and Investments

At year end, the carrying amount of the City's deposits was \$455,567 and the bank balance was \$511,586. In addition, the City had \$1,798,200 on deposit with the County of Muskegon in unexpended bond proceeds. Of the bank balance, \$100,060 was covered by federal depository insurance and \$41,526 was uninsured and uncollateralized.

#### Investments

The City's investments in securities are categorized as either (1) insured and registered for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counter-party's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counter-party or by its trust department or agent but not in the City's name. At June 30, 2004, the City's investments were in open-end mutual funds consisting of obligations of the United States or its agencies. These investments are not subject to credit risk classification and thus are not categorized.

At June 30, 2004, the City had investments in mutual funds of government securities with carrying amounts and fair values of \$15,289,839.

The deposits and investments of the City are in six financial institutions located in Michigan in varying amounts. State policy limits the treasurer's investing options to financial institutions located in Michigan, with the City Council further limiting investing to financial institutions located in Muskegon County.

# City of Norton Shores

## Notes to Basic Financial Statements

At year-end, the City's deposits and investments were reported in the government-wide financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Total Primary Government	Component Units	Fiduciary Funds
Cash, cash equivalents, and investments	\$ 6,923,788	\$ 1,336,400	\$ 8,260,188	\$ 1,242,787	\$ 298,483
Restricted assets	-	8,027,694	8,027,694	-	-
<b>Total</b>	<b>\$ 6,923,788</b>	<b>\$ 9,364,094</b>	<b>\$ 16,287,882</b>	<b>\$ 1,242,787</b>	<b>\$ 298,483</b>

In accordance with Public Act 20 of the Public Acts of 1943, as amended, most notably by Public Act 196 of 1997, the surplus funds of the City of Norton Shores shall be invested as follows:

- (a) Bonds, securities or other obligations 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 financial institution. The financial institution must be:
  - A state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union.
  - Whose deposits are insured by an agency of the United States government, and
  - That maintains a principal office located in the State of Michigan under the laws of this State or the United States.
- (c) Commercial paper rated at time of purchase within the two highest classifications by at least two rating services and that mature not more than 270 days after the date of purchase.

# City of Norton Shores

## Notes to Basic Financial Statements

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- (d) Repurchase agreements of the United States of an agency or instrumentality of the United States.
- (e) Bankers' acceptance of United States banks.
- (f) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one rating service.
- (g) Mutual funds registered under the Federal Investment Company Act of 1940, composed of the investment vehicles described above. Investments in mutual funds may include securities whose net asset value per share may fluctuate on a periodic basis.
- (h) Obligations described above if purchased through an inter-local agreement under the Urban Cooperation Act of 1967.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act (Public Act 367 of 1982).
- (j) Investment pools organized under the Local Government Investment Pool Act (Public Act 121 of 1985).

# City of Norton Shores

## Notes to Basic Financial Statements

**4. Capital Assets** Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets, not depreciable:				
Land	\$ 1,875,399	\$ 300	\$ -	\$ 1,875,699
Capital assets being depreciated:				
Buildings	2,770,998	22,654	-	2,793,652
Land improvements	1,003,804	242,009	-	1,245,813
Machinery, equipment, vehicles and fixtures	8,987,658	1,001,065	(386,128)	9,602,595
Total assets being depreciated	12,762,460	1,265,728	(386,128)	13,642,060
Less accumulated depreciation for:				
Buildings	(1,440,919)	(55,873)	-	(1,496,792)
Improvements	(521,979)	(24,915)	-	(546,894)
Machinery, equipment, vehicles and fixtures	(5,619,086)	(971,226)	386,128	(6,204,184)
Total accumulated depreciation	(7,581,984)	(1,052,014)	386,128	(8,247,870)
Total capital assets being depreciated, net	5,180,476	213,714	-	5,394,190
<b>Governmental Activities – Capital Assets, Net</b>	<b>\$ 7,055,875</b>	<b>\$ 214,014</b>	<b>\$ -</b>	<b>\$ 7,269,889</b>

# City of Norton Shores

## Notes to Basic Financial Statements

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Business-type</b>				
Capital assets, not depreciable:				
Land	\$ 250	\$ -	\$ -	\$ 250
Capital assets being depreciated:				
Regional water system	1,510,285	-	-	1,510,285
Water mains and hydrants	9,180,280	61,146	-	9,241,426
Meters	12,348	-	-	12,348
Sewers and lift stations	35,538,079	43,509	-	35,581,588
Machinery and equipment	114,912	-	-	114,912
Wastewater treatment	5,400,608	-	-	5,400,608
Construction in progress	3,896,351	177,340	-	4,073,691
<b>Total assets being depreciated</b>	<b>55,652,863</b>	<b>281,995</b>	<b>-</b>	<b>55,934,858</b>
Less accumulated depreciation for:				
Water mains and hydrants	(3,471,846)	(161,242)	-	(3,633,088)
Meters	(12,348)	-	-	(12,348)
Sewers and lift stations	(14,418,989)	(713,164)	-	(15,132,153)
Machinery and equipment	(111,251)	(1,368)	-	(112,619)
Wastewater treatment	(3,103,734)	(108,012)	-	(3,211,746)
<b>Total accumulated depreciation</b>	<b>(21,118,168)</b>	<b>(983,786)</b>	<b>-</b>	<b>(22,101,954)</b>
<b>Total capital assets being depreciated, net</b>	<b>34,534,695</b>	<b>(701,791)</b>	<b>-</b>	<b>33,832,904</b>
<b>Business-type Activities – Capital Assets, Net</b>	<b>\$ 34,534,945</b>	<b>\$ (701,791)</b>	<b>\$ -</b>	<b>\$ 33,833,154</b>

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

Governmental activities:	
General government	\$ 126,242
Public safety	925,772
<b>Total Depreciation Expense – Governmental Activities</b>	<b>\$ 1,052,014</b>
Business-type activities:	
Water and Sewer	\$ 983,786

# City of Norton Shores

## Notes to Basic Financial Statements

5. **Long-Term Debt** The following is a summary of the long-term debt outstanding of the City as of June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One year
<b>Governmental Activities</b>					
1993 Michigan Transportation Fund Bonds maturing through 2008, interest ranging from 3.125% - 4.875%.	\$ 1,750,000	\$ -	\$ (250,000)	\$ 1,500,000	\$ 250,000
CDBG Act 108 loan payable in annual installments of \$20,000. Final payment due August 1, 2009	145,000	-	(20,000)	125,000	20,000
Obligations under contract with Muskegon County	319,152	-	(219,152)	100,000	100,000
Capital lease payable in annual installments of \$46,295 including interest at 4.59%. Final payment due September 2005	304,237	-	(32,330)	271,907	33,814
Accumulated compensated absences	421,233	-	(36,900)	384,333	-
<b>Total Governmental Activities Long-Term Debt</b>	<b>\$ 2,939,622</b>	<b>\$ -</b>	<b>\$ (558,382)</b>	<b>\$ 2,381,240</b>	<b>\$ 403,814</b>
<b>Business Type Activities</b>					
Obligations under contract with County of Muskegon	\$ 4,526,265	\$ -	\$ (512,308)	\$ 4,013,957	\$ 349,696
Obligations under contract with the City of Muskegon Heights	9,184,898	-	(145,793)	9,039,105	123,750
Accumulated compensated absences	75,789	-	(1,004)	74,785	-
<b>Total Business Type Activities Long-Term Debt</b>	<b>\$ 13,786,952</b>	<b>\$ -</b>	<b>\$ (659,105)</b>	<b>\$ 13,127,847</b>	<b>\$ 473,446</b>
<b>Total all Long-Term Liabilities</b>	<b>\$ 16,726,574</b>	<b>\$ -</b>	<b>\$ (1,217,487)</b>	<b>\$ 15,509,087</b>	<b>\$ 877,260</b>

# City of Norton Shores

## Notes to Basic Financial Statements

The 1992 Muskegon County Wastewater Management System No. 1 contract was entered into with the County for increased construction costs incurred with respect to the 1989 contract for improvements to the sewage treatment facility. The City has pledged its limited tax full faith and credit toward the retirement of its share of the \$2,300,000 bond issue. In compliance with constitutional limitations, the City is utilizing sewer service charges as the retirement vehicle. Annual payments by the City for principal retirement will range from \$20,818 to \$221,712, with \$217,548 due in 2008.

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. 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 55% 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. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle.

Bond ordinances of several past issues contain provisions that restrict the use of unexpended bond proceeds for additional sewer system improvements or retirement of the related debt. The unexpended proceeds and accumulated investment earnings are presented as restricted assets.

The 2000 Muskegon Heights Water Supply System contract was entered into with the City of Muskegon Heights to provide a 7.8 million gallon per day water treatment capacity increase to service the cities of Muskegon Heights, Norton Shores and Fruitport Township. The City of Norton Shores is responsible for annual debt service in an amount equal to its previous year pro-rata share of water purchases, currently estimated at 51.16% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$18,485,000 bond issue. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle.

# City of Norton Shores

## Notes to Basic Financial Statements

The total requirement for payment of principal and interest amount to \$15,049,969 and \$10,380,283, respectively at June 30, 2004 as follows:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005-2009	\$ 1,971,907	\$ 207,243	\$ 2,594,785	\$ 3,333,879
2010-2014	25,000	1,096	1,821,142	2,663,776
2015-2019	-	-	2,712,689	2,058,501
2020	-	-	5,924,446	2,115,788
	<u>\$ 1,996,907</u>	<u>\$ 208,339</u>	<u>\$ 13,053,062</u>	<u>\$ 10,171,944</u>

### 6. Interfund Balances and Transfers

Interfund receivables and payables at June 30, 2004 consist of:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 89,986	Trust and Agency Taxes	\$ 200,531
Capital improvement	30,441	Trust and Agency - Other	<u>2,753</u>
Solid Waste Fund	79,237		
Debt Service Fund	<u>3,620</u>		<u>\$ 203,284</u>
	<u>\$ 203,284</u>		

Interfund transfers during the fiscal year were as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Transfer out</u>
Major Streets	\$320,927	\$ -
Capital Improvements	-	410,927
Local Streets	-	-
Local Improvement	25,000	-
Debt Service	317,669	-
Tax Incremental Finance Authority	-	252,669
	<u>\$663,596</u>	<u>\$663,596</u>

# City of Norton Shores

## Notes to Basic Financial Statements

7. **Risk Management** The City purchases insurance and participates in public entity risk pools for the various risks associated with City operations. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability insurance coverage as a member of the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMLPP for liability insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrences based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$1,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

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 members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past four fiscal years.

# City of Norton Shores

## Notes to Basic Financial Statements

### 8. 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 of the 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.

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

### 9. Post-Employment Health Care Benefits

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. All of the City's full-time employees may become eligible for those benefits if they qualify for normal retirement while working for the City. The cost of retiree health care insurance benefits is recognized as expense as premiums are paid. For the year ended June 30, 2004, those costs total \$379,121 for the 53 retirees receiving health care insurance benefits.

### 10. Retirement Plan

#### Plan Description

The City's defined benefit pension plan, City of Norton Shores Employees' Retirement System (CNSERS), provides retirement, death and disability benefits to plan members and beneficiaries. CNSERS is affiliated with the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer pension plan administered by the nine member board of MERS. Public Act 135 of 1945 as amended by Public Act 220 of 1996 assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for CNSERS, that authority rests with the City of Norton Shores. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting Municipal Employees' Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917.

# City of Norton Shores

## Notes to Basic Financial Statements

### Funding Policy

CNSERS members are not required to contribute. The City is required to contribute at actuarially determined rates; the current rates range from 13.90% to 25.05% of annual covered payroll depending on the level of benefits adopted for the member groups of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

### Annual Pension Cost

For the year ending June 30, 2004, the City's annual pension cost of \$899,193 for CNSERS was equal to the City's required contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 4.5% inflation rate, compounded annually, (b) 8.0% investment rate of return (net of administrative expenses), (c) projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of CNSERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. CNSERS' unfunded actuarial accrued liability is being amortized as a level percentage of payroll over an open amortization period of 30 years.

### Three-Year Trend Information for CNSERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$704,059	128	\$(200,000)
6/30/03	758,398	100	-
6/30/04	899,193	100	-

# City of Norton Shores

## Notes to Basic Financial Statements

**11. Excess of Expenditures Over Revenues in Budgetary Funds**

During the year ended June 30, 2004, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

<i>Year ended June 30, 2004</i>	Appropriation	Actual Expenditures
Accounting and financial		
Administration	\$ 225,311	\$ 242,736
Legal services	135,360	174,082
Records and information	144,376	146,660
Building and grounds maintenance	130,983	135,247
Police mat	127,425	128,210
Uniform patrol	2,045,243	2,053,139
Fire mgt	196,187	202,741
Fire operations	1,140,193	1,158,117
Prevention and investigation	118,540	120,640
Training	121,327	126,727
Housing and neighborhood	19,901	24,583
Street lighting	265,000	285,282
Library	114,941	119,139
Insurance	183,385	185,448

All expenditures over appropriations as identified above have been paid by excess revenues or by reduced expenditures in other activities.

**Required Supplemental  
Material**

<i>June 30, 2004</i>	General Fund			
	Original Budget	Final Budget	Actual	Difference
<b>Revenues</b>				
Taxes	\$ 3,722,257	\$ 3,707,382	\$ 3,673,721	\$ (33,661)
Licenses and permits	230,000	224,775	220,587	(4,188)
Intergovernmental revenue				
Federal	37,941	37,941	50,593	12,652
State	2,016,831	1,912,460	1,895,443	(17,017)
Charges for services	1,417,165	1,445,705	1,463,646	17,941
Fines and forfeits	87,750	85,250	66,947	(18,303)
Interest income	110,000	112,000	104,398	(7,602)
Miscellaneous	25,000	25,000	38,698	13,698
<b>Total Revenues</b>	<b>7,646,944</b>	<b>7,550,513</b>	<b>7,514,033</b>	<b>(36,480)</b>
<b>Expenditures</b>				
Current operations				
General government	2,020,872	2,069,580	2,284,915	(215,335)
Public safety	4,657,895	4,643,579	4,494,177	149,402
Highways and streets	311,480	301,480	307,361	(5,881)
Culture and recreation	656,697	640,245	602,291	37,954
Administration	-	-	-	-
<b>Total Expenditures</b>	<b>7,646,944</b>	<b>7,654,884</b>	<b>7,688,744</b>	<b>(33,860)</b>
<b>Revenues Over (Under) Expenditures</b>	<b>-</b>	<b>(104,371)</b>	<b>(174,711)</b>	<b>(70,340)</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	-	-	-	-
Interfund transfers (out)	-	-	-	-
	-	-	-	-
<b>Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>-</b>	<b>(104,371)</b>	<b>(174,711)</b>	<b>(70,340)</b>
<b>Fund Balance, at beginning of year</b>	<b>1,172,307</b>	<b>1,172,307</b>	<b>1,172,307</b>	<b>-</b>
<b>Fund Balance, at end of year</b>	<b>\$ 1,172,307</b>	<b>\$ 1,067,936</b>	<b>\$ 997,596</b>	<b>\$ (70,340)</b>

# City of Norton Shores

## Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Governmental Funds

Major Streets			
Original Budget	Final Budget	Actual	Difference
\$ -	\$ -	\$ -	\$ -
1,348,595	1,250,686	211,103	(1,039,583)
1,246,739	1,422,059	1,420,202	(1,857)
-	-	-	-
11,000	11,000	12,781	1,781
39,400	39,400	35,550	(3,850)
2,645,734	2,723,145	1,679,636	(1,043,509)
-	-	-	-
2,758,000	2,800,951	1,675,387	1,125,564
208,661	239,411	242,305	(2,894)
2,966,661	3,040,362	1,917,692	1,122,670
(320,927)	(317,217)	(238,056)	79,161
320,927	320,927	320,927	-
-	-	-	-
320,927	320,927	320,927	-
-	3,710	82,871	79,161
3,883	3,883	3,883	-
\$ 3,883	\$ 7,593	\$ 86,754	\$ 79,161

# City of Norton Shores

## Required Supplementary Information for Pension Plans – GASB 27

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/ c)
December 31:						
2001	\$ 14,459,081	\$ 20,490,467	\$ 6,031,386	70.56%	\$ 4,404,534	136.94%
2002	15,095,784	22,090,252	6,994,468	68.34%	4,844,703	145.70%
2003	16,110,891	23,623,313	7,512,422	68.20%	4,815,069	156.02%

<i>June 30, 2004</i>	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
<b>Assets</b>				
Cash and cash equivalents	\$ 146,694	\$ 646,496	\$ 314,219	\$ 3,469
Due from other governments	78,368	-	-	-
Due from other funds	-	79,237	-	-
Accounts receivable	979	-	-	1,186
Special assessments receivable	-	-	-	-
Prepaid items	724	-	2,826	-
<b>Total Assets</b>	<b>\$ 226,765</b>	<b>\$ 725,733</b>	<b>\$ 317,045</b>	<b>\$ 4,655</b>
<b>Liabilities and Fund Balances</b>				
Liabilities				
Accounts payable	\$ 1,903	\$ 925	\$ 5,373	\$ 84
Accrued payroll	1,053	506	2,405	-
Performance deposits	-	-	-	500
Deferred revenues	353	-	-	-
<b>Total Liabilities</b>	<b>3,309</b>	<b>1,431</b>	<b>7,778</b>	<b>584</b>
Fund balances				
Reserved for debt service	-	-	-	-
Reserved for perpetual care	-	-	-	-
Unreserved				
Designated for subsequent year's expenditures	-	-	-	-
Undesignated	223,456	724,302	309,267	4,071
<b>Total Fund Balances</b>	<b>223,456</b>	<b>724,302</b>	<b>309,267</b>	<b>4,071</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 226,765</b>	<b>\$ 725,733</b>	<b>\$ 317,045</b>	<b>\$ 4,655</b>

# City of Norton Shores

## Combining Balance Sheet – Non-Major Governmental Funds

<u>Local Improvement</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total All Funds</u>
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$1,383,168	\$ 53,755	\$567,508	\$396,587	\$3,511,896
-	-	-	-	78,368
-	3,620	-	-	82,857
-	-	-	-	2,165
326,865	170,658	-	-	497,523
24,392	-	-	-	27,942
<b>\$1,734,425</b>	<b>\$228,033</b>	<b>\$567,508</b>	<b>\$396,587</b>	<b>\$4,200,751</b>
\$ -	\$ -	\$ -	\$ -	\$ 8,285
-	-	-	-	3,964
-	-	-	-	500
70,294	170,658	-	-	241,305
70,294	170,658	-	-	254,054
-	57,375	-	-	57,375
-	-	-	396,587	396,587
-	-	200,000	-	200,000
1,664,131	-	367,508	-	3,292,735
1,664,131	57,375	567,508	396,587	3,946,697
<b>\$1,734,425</b>	<b>\$228,033</b>	<b>\$567,508</b>	<b>\$396,587</b>	<b>\$4,200,751</b>

<i>Year ended June 30, 2004</i>	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
<b>Revenues</b>				
Taxes	\$ -	\$ 635,677	\$ -	\$ -
Licenses and permits	-	-	492,241	-
Assessments levied	-	-	-	-
Sale of cemetery lots	-	-	-	-
Intergovernmental revenue				
Federal	-	-	-	160,358
State	461,121	-	-	-
Interest income	9,500	35,128	18,226	-
Miscellaneous revenue	-	13,913	-	14,522
<b>Total Revenues</b>	<b>470,621</b>	<b>684,718</b>	<b>510,467</b>	<b>174,880</b>
<b>Expenditures</b>				
Public safety	-	-	476,069	-
Highways and streets	346,715	-	-	-
Administration	80,457	72,300	56,215	-
Cemetery maintenance	-	-	-	-
Community development	-	-	-	145,715
Solid waste disposal	-	493,463	-	-
Capital outlay	-	-	-	-
Debt service				
Principal payments	-	-	-	20,000
Interest	-	-	-	11,488
<b>Total Expenditures</b>	<b>427,172</b>	<b>565,763</b>	<b>532,284</b>	<b>177,203</b>
Revenues over (under) expenditures	43,449	118,955	(21,817)	(2,323)
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Revenues and other sources over (under) expenditures and other uses	43,449	118,955	(21,817)	(2,323)
<b>Fund Balance, at beginning of year</b>	<b>180,007</b>	<b>605,347</b>	<b>331,084</b>	<b>6,394</b>
<b>Fund Balance, at end of year</b>	<b>\$ 223,456</b>	<b>\$ 724,302</b>	<b>\$ 309,267</b>	<b>\$ 4,071</b>

# City of Norton Shores

## Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds

	Debt Service	Capital Projects	Permanent	
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$ -	\$ 159,937	\$ -	\$ -	\$ 795,614
-	-	-	-	492,241
7,536	-	-	-	7,536
-	-	-	29,600	29,600
-	-	-	-	160,358
-	-	-	-	461,121
98,326	11,959	25,571	18,417	217,127
-	28,360	-	-	56,795
105,862	200,256	25,571	48,017	2,220,392
-	-	-	-	476,069
15,298	-	-	-	362,013
-	-	-	-	208,972
-	-	-	18,417	18,417
-	-	-	-	145,715
-	-	-	-	493,463
-	-	-	-	-
-	469,152	-	-	489,152
-	60,569	-	-	72,057
15,298	529,721	-	18,417	2,265,858
90,564	(329,465)	25,571	29,600	(45,466)
25,000	317,669	-	-	342,669
-	-	-	-	-
25,000	317,669	-	-	342,669
115,564	(11,796)	25,571	29,600	297,203
1,548,567	69,171	541,937	366,987	3,649,494
\$1,664,131	\$ 57,375	\$ 567,508	\$ 396,587	\$3,946,697

<i>Year ended June 30, 2004</i>	Local Street		
	Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue	-	-	-
Federal	-	-	-
State	451,716	461,121	(9,405)
Interest income	8,000	9,500	(1,500)
Miscellaneous revenue	-	-	-
<b>Total Revenues</b>	<b>459,716</b>	<b>470,621</b>	<b>(10,905)</b>
<b>Expenditures</b>			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	377,300	346,715	30,585
Community development	121,909	80,457	41,452
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
Principal payments	-	-	-
Interest	-	-	-
<b>Total Expenditures</b>	<b>499,209</b>	<b>427,172</b>	<b>72,037</b>
Revenues over (under) expenditures	(39,493)	43,449	82,942
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Revenues and other sources over (under) expenditures and other uses	(39,493)	43,449	82,942
<b>Fund Balance, at beginning of year</b>	<b>180,007</b>	<b>180,007</b>	<b>-</b>
<b>Fund Balance, at end of year</b>	<b>\$ 140,514</b>	<b>\$ 223,456</b>	<b>\$ 82,942</b>

# City of Norton Shores

## Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Non-Major Governmental Funds

Solid Waste			Building		
Budget	Actual	Variance	Budget	Actual	Variance
\$ 641,175	\$ 635,677	\$ (5,498)	\$ -	\$ -	\$ -
-	-	-	554,000	492,241	(61,759)
-	-	-	-	-	-
-	-	-	-	-	-
30,000	35,128	5,128	16,000	18,226	2,226
15,000	13,913	(1,087)	-	-	-
686,175	684,718	(1,457)	570,000	510,467	(59,533)
-	-	-	512,396	476,069	(36,327)
72,300	72,300	-	56,215	56,215	-
652,900	493,463	159,437	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
725,200	565,763	159,437	568,611	532,284	(36,327)
(39,025)	118,955	157,980	1,389	(21,817)	(23,206)
-	-	-	-	-	-
-	-	-	-	-	-
(39,025)	118,955	157,980	1,389	(21,817)	(23,206)
605,347	605,347	-	331,084	331,084	-
\$ 566,322	\$ 724,302	\$ 157,980	\$ 332,473	\$ 309,267	\$ (23,206)

<u>Community Development Program</u>			
<u>Year ended June 30, 2004</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	174,480	160,358	(14,122)
State	-	-	-
Interest income	-	-	-
Miscellaneous revenue	-	14,522	14,522
<b>Total Revenues</b>	<b>174,480</b>	<b>174,880</b>	<b>400</b>
<b>Expenditures</b>			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Community development	148,874	145,715	3,159
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	20,000	20,000	-
Interest	12,000	11,488	512
<b>Total Expenditures</b>	<b>180,874</b>	<b>177,203</b>	<b>3,671</b>
Revenues over (under) expenditures	(6,394)	(2,323)	4,071
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Revenues and other sources over (under) expenditures and other uses	(6,394)	(2,323)	4,071
<b>Fund Balance, at beginning of year</b>	<b>6,394</b>	<b>6,394</b>	<b>-</b>
<b>Fund Balance, at end of year</b>	<b>\$ -</b>	<b>\$ 4,071</b>	<b>\$ 4,071</b>

# City of Norton Shores

## Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Non-Major Governmental Funds

Local Improvement		
Budget	Actual	Variance
\$ -	\$ -	\$ -
23,500	7,536	(15,964)
-	-	-
-	-	-
81,500	98,326	16,826
-	-	-
105,000	105,862	862
-	-	-
23,500	15,298	8,202
-	-	-
-	-	-
-	-	-
-	-	-
23,500	15,298	8,202
81,500	90,564	9,064
-	25,000	25,000
-	-	-
-	25,000	25,000
81,500	115,564	34,064
1,548,567	1,548,567	-
\$1,630,067	\$ 1,664,131	\$ 34,064

<i>Year ended June 30, 2004</i>	Debt Service		
	Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 160,744	\$ 159,937	\$ (807)
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue	-	-	-
Federal	-	-	-
State	-	-	-
Interest income	23,000	11,959	(11,041)
Miscellaneous revenue	28,360	28,360	-
<b>Total Revenues</b>	<b>212,104</b>	<b>200,256</b>	<b>(11,848)</b>
<b>Expenditures</b>			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Cemetery maintenance	-	-	-
Community development	-	-	-
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
Principal payments	469,152	469,152	-
Interest	60,570	60,569	1
<b>Total Expenditures</b>	<b>529,722</b>	<b>529,721</b>	<b>1</b>
Revenues over (under) expenditures	(317,618)	(329,465)	(11,847)
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	317,669	317,669	-
Interfund transfers out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>317,669</b>	<b>317,669</b>	<b>-</b>
Revenues and other sources over (under) expenditures and other uses	51	(11,796)	(11,847)
<b>Fund Balance, at beginning of year</b>	<b>69,171</b>	<b>69,171</b>	<b>-</b>
<b>Fund Balance, at end of year</b>	<b>\$ 69,222</b>	<b>\$ 57,375</b>	<b>\$ (11,847)</b>

# City of Norton Shores

## Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Governmental Funds

Industrial Development			Cemetery Care		
Budget	Actual	Variance	Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	29,600	29,600
-	-	-	-	-	-
20,000	25,571	5,571	18,417	18,417	-
-	-	-	-	-	-
20,000	25,571	5,571	18,417	48,017	29,600
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	18,417	18,417	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	18,417	18,417	-
20,000	25,571	5,571	-	29,600	29,600
-	-	-	-	-	-
-	-	-	-	-	-
20,000	25,571	5,571	-	29,600	29,600
541,937	541,937	-	366,987	366,987	-
\$ 561,937	\$ 567,508	\$ 5,571	\$ 366,987	\$ 396,587	\$ 29,600

# City of Norton Shores

## Internal Service Fund – Equipment Revolving Fund

### Balance Sheet

*June 30, 2004*

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$1,398,167
Accounts receivable	1,115
Prepaid expenses	35,642
<b>Total Current Assets</b>	<b>1,434,924</b>
<b>Equipment</b> , net of accumulated depreciation of \$2,477,203 in 2004 and \$2,361,312 in 2003	1,233,326
<b>Total Assets</b>	<b>2,668,250</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	5,439
Accrued payroll	1,527
Compensated absences payable	3,759
<b>Total Liabilities</b>	<b>10,725</b>
<b>Net Assets</b>	
Invested in capital assets – net of related debt	1,233,326
Reserved for replacement	1,424,199
<b>Total Net Assets</b>	<b>\$2,657,525</b>

# City of Norton Shores

## Internal Service Fund – Equipment Revolving Fund

### Statement of Revenues, Expenses and Changes in Net Assets

*Year ended June 30, 2004*

<b>Operating Revenues</b>	
Billings to departments	\$ 907,208
Miscellaneous operating revenues	22,131
<b>Total Operating Revenues</b>	929,339
<b>Total Operating Expenses</b>	993,466
Operating loss	(64,127)
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	64,872
Gain on sale of equipment	66,737
<b>Total Non-Operating Revenues (Expenses)</b>	131,609
<b>Net Income</b>	67,482
<b>Net Assets, at beginning of year</b>	2,590,043
<b>Net Assets, at end of year</b>	\$ 2,657,525

# City of Norton Shores

## Internal Service Fund – Equipment Revolving Fund

### Statement of Cash Flows

*Year ended June 30, 2004*

<b>Cash Flows from Operating Activities</b>	
Operating loss	\$ (64,127)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	382,019
Changes in assets and liabilities	
Accounts receivable	92
Prepaid expenses	8,138
Accounts payable	1,460
Accrued liabilities	1,809
<b>Total Cash Flows from Operating Activities</b>	<b>329,391</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from sale of fixed assets	66,737
Purchase of fixed assets	(418,624)
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<b>(351,887)</b>
<b>Cash Flows from Investing Activities</b>	
Interest income	64,872
<b>Increase in Cash</b>	<b>42,376</b>
<b>Cash, at beginning of year</b>	<b>1,355,791</b>
<b>Cash, at end of year</b>	<b>\$ 1,398,167</b>

**City of Norton Shores**  
**Agency Funds - Trust and Agency**  
**Balance Sheet**

*June 30, 2004*

**Assets and Other Debits**

Cash and cash equivalents	\$298,483
Due from other governments	335,418
Accounts receivable	13

**Total Assets and Other Debits** \$633,914

**Liabilities**

Liabilities	
Due to other funds	\$203,284
Performance deposits	251,219
Due to other governments	179,411

**Total Liabilities** \$633,914

# City of Norton Shores

## Agency Funds

### Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Trust and Agency Taxes</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 4,634	\$26,308,732	\$26,313,305	\$ 61
Due from other governments	-	335,418	-	335,418
	\$ 4,634	\$26,644,150	\$26,313,305	\$ 335,479
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 200,531	\$ -	\$ 200,531
Due to other governments	4,634	26,443,619	26,313,305	134,948
	\$ 4,634	\$26,644,150	\$26,313,305	\$ 335,479
<b>Trust and Agency – Other</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 139,315	\$ 467,608	\$ 308,501	\$ 298,422
Accounts receivable	-	13	-	13
	\$ 139,315	\$ 467,621	\$ 308,501	\$ 298,435
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 5,627	\$ 2,874	\$ 2,753
Performance deposits	48,745	247,607	45,133	251,219
Due to other governments	90,570	214,387	260,494	44,463
	\$ 139,315	\$ 467,621	\$ 308,501	\$ 298,435

# City of Norton Shores

## Agency Funds

### Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Total Trust and Agency</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 143,949	\$ 26,776,340	\$ 26,621,806	\$ 298,483
Due from other governments	-	335,418	-	335,418
Accounts receivable	-	13	-	13
	\$ 143,949	\$ 27,111,771	\$ 26,621,806	\$ 633,914
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 206,158	\$ 2,874	\$ 203,284
Performance deposits	48,745	247,607	45,133	251,219
Due to other governments	95,204	26,658,006	26,573,799	179,411
	\$ 143,949	\$ 27,111,771	\$ 26,621,806	\$ 633,914



**City of Norton Shores,  
Michigan**

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**Management Letter**  
Year ended June 30, 2004

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

During the course of our audit of the financial statements of the City of Norton Shores, Michigan as of June 30, 2004 and for the year then ended, we observed the City's significant accounting policies and procedures and certain administrative, and financial practices.

As a result of our observations, we have prepared for management's review and evaluation, the enclosed memorandum containing suggestions regarding internal control, financial and administrative practices of the City of Norton Shores, Michigan.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the cooperation from management and the staff of the City of Norton Shores, Michigan that our personnel received during the audit.

*Pridnia Lapres, PLLC*

September 21, 2004

# City of Norton Shores, Michigan

## Current Comments

### **Fraud Prevention Policy**

The American Institute of Certified Public Accountants (AICPA) recently issue Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. This statement requires the independent auditor to perform additional procedures that are intended to reduce the risk that material fraud may go undetected. You should be aware that, while these additional procedures may reduce the risk of material undetected fraud, they do not eliminate risk. It is management's responsibility to design and implement programs and controls to prevent, deter and detect fraud. During our audit of the City, we noted that there was no documented fraud prevention policy in place.

#### Recommendation

We recommend that management establish a written fraud prevention policy. We also recommend that management review current policies and procedures to determine where fraud risk may exist and establish appropriate controls so that opportunities to commit fraud can be significantly reduced.

### **Capital Asset Recordkeeping**

During our audit of the capital assets, we noted that disposals and sales of capital assets have historically not been removed from the general capital assets listing of the City.

#### Recommendation

We recommend that the City perform an inventory of their capital assets to determine which assets, if any, need to be removed from the capital asset list.

### **Collectibility of Accounts Receivable**

During our audit of the City's accounts receivable balances, we noted several immaterial balances on the listings are many years old, dating back to 1999.

#### Recommendation

We recommend the accounts receivable balances be reviewed for collectibility and all accounts deemed uncollectible written off in a timely manner.

**City of Norton Shores,  
Michigan**

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**Additional Reports Required by  
Government Auditing Standards**

June 30, 2004

**City of Norton Shores,  
Michigan**

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**Independent Auditors' Report on the Compliance and on Internal  
Control Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance with  
Government Auditing Standards**

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

We have audited the financial statements of the City of Norton Shores, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 21 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Norton Shores, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Norton Shores, Michigan in a separate letter dated September 21, 2004.

This report is intended for the information of the members of the City Council, management and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Prudma LaPres, LLC*

Muskegon, Michigan  
September 21, 2004