

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Norton Shores, Michigan	County Muskegon
Fiscal Year End 6/30/07	Opinion Date 10/15/07	Date Audit Report Submitted to State OCTOBER 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

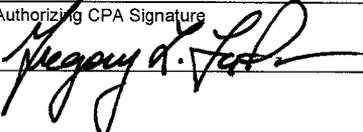
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES **NO** **Check each applicable box below** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC		Telephone Number 231-739-9441		
Street Address 3145 Henry Street, Suite 200		City Muskegon	State MI	Zip 49441
Authorizing CPA Signature 	Printed Name Gregory L. LaPres		License Number 1101013632	

City of Norton Shores

**Financial Statements
and Supplemental Material**
Year Ended June 30, 2007

**CITY OF NORTON SHORES
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2007**

**Prepared by
Finance Department**

**Michael D. Huston
Finance Director**

**Tina C. Ericksen
Treasurer**

Comprehensive Annual Financial Report City of Norton Shores

June 30, 2007

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Comprehensive Annual Financial Report City of Norton Shores

June 30, 2006

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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, the discretely presented component units, 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, 2007, 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. 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, 2007, 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.

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The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 9 through 18 and pages 62 through 63 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

A handwritten signature in black ink that reads "Pridnia L. L. C." in a cursive script.

Muskegon, Michigan
October 15, 2007

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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, 2007. 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 \$65,552,673 (net assets), compared to \$64,895,169 at June 30, 2006. Of this amount, \$20,488,236 (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 \$657,505.
- As of the close of its current fiscal year, the City of Norton Shores' governmental funds reported a combined ending net assets of \$23,067,104, an increase of \$337,558 in comparison with the preceding fiscal year. Approximately 38% or \$8,708,753 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 \$1,430,656, or 17% of total general fund expenditures.
- The City of Norton Shores total debt decreased by \$917,627, 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 governmental 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 \$65,552,673 at the close of fiscal year 2007, compared to \$64,895,169 at the close of fiscal year 2006.

The largest portion of net assets in the City (58%) are its capital assets (land, buildings, machinery and equipment), net of related debt outstanding used to acquire these assets. The City uses these capital 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 capital 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 not be used to liquidate these obligations.

CITY OF NORTON SHORES NET ASSETS

Major Categories	Governmental Activities 2007	Governmental Activities 2006	Business- Type Activities 2007	Business- Type Activities 2006	Total 2007	Total 2006
Cash and investments	\$ 8,527,286	\$ 8,836,218	\$ 1,383,502	\$ 1,562,299	\$ 9,910,788	\$ 10,398,517
Receivables	1,106,217	1,103,440	1,895,583	2,050,583	3,001,800	3,154,023
Other current assets	1,035,161	415,764	273,348	242,491	1,308,509	658,255
Long term assets	-	-	10,268,827	9,894,926	10,268,827	9,894,926
Capital assets	14,622,899	14,506,032	31,940,745	31,997,615	46,563,644	46,503,647
Facility rights	-	-	8,638,299	9,013,135	8,638,299	9,013,135
Total Assets	25,291,563	24,861,454	54,400,304	54,761,049	79,691,867	79,622,503
Other liabilities	1,186,498	707,984	873,124	423,758	2,059,622	1,131,742
Long-term liabilities	1,037,961	1,739,929	11,041,611	12,171,668	12,079,572	13,911,597
Total Liabilities	2,224,459	2,447,913	11,914,735	12,595,426	14,139,194	15,043,339
Investment in capital assets – net of related debt	13,742,504	13,584,312	20,437,259	19,919,522	34,179,763	33,503,834
Restricted	615,847	531,385	10,268,827	9,894,926	10,884,674	10,426,311
Unrestricted	8,708,753	8,613,849	11,779,483	12,351,175	20,488,236	20,965,024
Total Net Assets	\$ 23,067,104	\$ 22,729,546	\$ 42,485,569	\$ 42,165,623	\$ 65,552,673	\$ 64,895,169

A portion (17%) of the City's net assets has certain restrictions placed on their use. The remaining balance of unrestricted net assets (\$20,488,236) can be used to meet the City's ongoing obligations to its residents and creditors. A major portion (38%) 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 \$653,563. 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 2007	Governmental Activities 2006	Business- Type Activities 2007	Business- Type Activities 2006	Total 2007	Total 2006
Revenues						
Program Revenues						
Operating grants and contributions	\$ -	\$ 5,041	\$ -	\$ -	\$ -	\$ 5,041
Charges for services	1,753,775	1,740,181	4,936,513	4,728,846	6,690,288	6,469,027
Capital grants-contributions	78,740	160,159	-	-	78,740	160,159
General Revenues						
Taxes	6,535,116	6,468,480	-	-	6,535,116	6,468,480
Special assessments levied	103,659	33,014	318,089	416,938	421,748	449,952
Licenses and permits	751,017	799,902	-	-	751,017	799,902
Intergovernmental revenue	3,500,755	3,686,706	-	-	3,500,755	3,686,706
Fines and forfeits	49,014	65,528	-	-	49,014	65,528
Interest income	348,836	240,131	351,333	145,225	700,169	385,356
Miscellaneous	211,334	141,417	29,186	83,826	240,520	225,243
Total Revenues	13,332,246	13,340,559	5,635,121	5,374,835	18,967,367	18,715,394
Expenses						
General government	2,436,413	2,467,921	-	-	2,436,413	2,467,921
Public safety	7,230,062	6,860,843	-	-	7,230,062	6,860,843
Highways and streets	1,561,115	1,399,456	-	-	1,561,115	1,399,456
Sanitation	383,283	585,760	-	-	383,283	585,760
Culture and recreation	548,191	579,975	-	-	548,191	579,975
Administration	979,422	873,324	-	-	979,422	873,324
Community development	76,378	123,110	-	-	76,378	123,110
Debt Service						
Interest	42,899	61,777	-	-	42,899	61,777
Water and sewer	-	-	5,315,175	5,152,623	5,315,175	5,152,623
Total Expenses	13,257,763	12,952,166	5,315,175	5,152,623	18,572,938	18,104,789
Increase in Net Assets before Transfers	74,483	388,393	319,946	222,212	394,429	610,605
Transfers	263,075	277,700	-	-	263,075	277,700
Increase in Net Assets	337,558	666,093	319,946	222,212	657,504	888,305
Net Assets—July 1, 2006	22,729,546	22,063,453	42,165,623	41,943,411	64,895,169	64,006,864
Net Assets—June 30, 2007	\$ 23,067,104	\$ 22,729,546	\$ 42,485,569	\$ 42,165,623	\$ 65,552,673	\$ 64,895,169

Business-type activities. Business-type activities increased the City of Norton Shores' net assets by \$319,946 accounting for 49% of the total growth in the government's net assets. Water and sewer installations and connections drove the increase by contributing over \$318,089 in revenue.

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 \$8,597,398, an increase of \$230,565 in comparison with the previous year. Approximately 83% of the fund balance (\$7,176,208) 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 (\$805,343), 2) pay debt service (\$142,686), and 3) reserve for perpetual care (\$473,161).

The general fund is the chief operating fund of the City of Norton Shores. At the end of the current fiscal year, undesignated fund balance of the general fund and total fund balance was \$1,430,656. 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 17% of total general fund expenditures, while total fund balance also represents 17% of that same amount. This percentage is an increase of 1% over the prior year.

Major revenue items contributed to the \$368,284 increase in revenues in the general fund. Property taxes increased \$276,721; intergovernmental revenues decreased \$17,134 in the general fund. The majority of revisions to revenue were in the areas of charges for services and investment income. Expenses in the general fund were \$397,356, greater than the previous year, leading to a net increase in fund balance of \$196,125 over 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 \$11,779,483, with the equipment revolving funding showing unrestricted net assets of \$1,238,009.

General Fund Budgetary Expenditure Highlights

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

Decrease in medical insurance costs for all employee groups, due to the switch to Partial self funding.

Budgeted expenditures decreased \$108,670. As indicated previously, decreases in medical costs accounted for nearly all the appropriation decreases. Total actual expenses came in under budget and allowed revenues to flow through as an increase 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, 2007 amounts to \$46,563,644 (net of accumulated depreciation) compared to \$46,819,652 at June 30, 2006. This involvement in capital assets includes land, buildings, improvements, machinery, equipment, water supply and sanitary sewer collection systems, infrastructure and capitalized interest and engineering. The total increase in the City's capital assets for the current fiscal year was not even 1%, net of depreciation. Additions for the fiscal years ended June 30, 2007 and 2006 are as follows:

	2007	2006
Land	\$ -	\$ -
Buildings	21,897	28,362
Land Improvements	36,782	53,232
Machinery and Equipment	1,005,720	1,064,484
Water Mains and Hydrants	405,145	286,618
Sewers and Lift Stations	669,859	27,161
Construction in Progress	-	41,997
Infrastructure	911,156	281,955

CITY OF NORTON SHORES CAPITAL ASSETS

Major Categories	Governmental Activities 2007	Governmental Activities 2006	Business- Type Activities 2007	Business- Type Activities 2006	Total 2007	Total 2006
Land	\$ 1,875,699	\$ 1,875,699	\$ 250	\$ 250	\$ 1,875,949	\$ 1,875,949
Land improvements	1,378,710	1,341,928	-	-	1,378,710	1,341,928
Buildings and improvements	2,877,094	2,855,197	-	-	2,877,094	2,855,197
Machinery and equipment	11,897,629	11,273,012	114,912	114,912	12,012,541	11,387,924
Infrastructure	19,607,669	18,696,513	-	-	19,607,669	18,696,513
Regional Water System	-	-	1,510,285	1,510,285	1,510,285	1,510,285
City Water System	-	-	9,986,030	9,580,885	9,986,030	9,580,885
Sewers and lift stations	-	-	36,307,847	35,637,988	36,307,847	35,637,988
Wastewater treatment	-	-	5,400,608	5,400,608	5,400,608	5,400,608
Construction in progress	-	-	3,699,219	3,828,340	3,699,219	3,828,340
Total	\$ 37,636,801	\$ 36,042,349	\$ 57,019,151	\$ 56,073,268	\$ 94,655,952	\$ 92,115,617

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 \$12,383,881. 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 2007	Governmental Activities 2006	Business- Type Activities 2007	Business- Type Activities 2006	Total 2007	Total 2006
Limited full faith and credit bonds	\$ 650,000	\$ 950,000	\$ 11,503,486	\$ 12,078,092	\$ 12,153,486	\$ 13,028,092
CDBG Act 108 loan payable	65,000	85,000	-	-	65,000	85,000
Equipment capital lease Payable	165,395	202,725	-	-	165,395	202,725
Accumulated compensated absences	516,450	502,204	93,639	93,576	610,089	595,780
Total	\$ 1,396,845	\$ 1,739,929	\$ 11,597,125	\$ 12,171,668	\$ 12,993,970	\$ 13,911,597

The City's total debt decreased by \$917,627. This reduction was due entirely to normal debt payoffs as provided for in the FY-2007 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:

Two subdivisions continue to be developed in fiscal 2007, called Churchill Woods and Porter Woods. These subdivisions will extend Sternberg Road and will put the City closer to extending Sternberg from Grand Haven Rd to Lake Harbor Rd.

Property along Black Lake was purchased to expand the park.

Henry Street reconstruction from Sherman to Summit was completed and from Summit to Seminole was started in fiscal 2007.

Land along Grand Haven Road was purchased for future expansion of the Industrial sector of the City of Norton Shores.

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) 799-6805.



<i>June 30, 2007</i>	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 8,527,286	\$ 1,383,502	\$ 9,910,788
Receivables			
Accounts	255,844	926,682	1,182,526
Intergovernmental	540,476	-	540,476
Assessments	309,897	968,901	1,278,798
Internal balances	-	-	-
Prepaid items	1,035,161	70,697	1,105,858
Inventory of material and supplies	-	202,651	202,651
Restricted assets	-	10,268,827	10,268,827
Capital assets, net of accumulated depreciation	14,622,899	31,940,745	46,563,644
Wastewater facility rights, net of amortization	-	143,611	143,611
Water plant facility rights, net of amortization	-	8,494,688	8,494,688
	\$ 25,291,563	\$ 54,400,304	\$ 79,691,867
Liabilities			
Checks issued against future deposits	\$ 13,331	\$ -	\$ 13,331
Account payables	351,542	225,497	577,039
Accrued payroll	92,037	10,623	102,660
Special agreements payable	-	5,098	5,098
Long-term debt (Note 5)			
Due within one year	358,884	555,514	914,398
Due in more than one year	1,037,961	11,041,611	12,079,572
Unearned revenues	370,704	76,392	447,096
Total Liabilities	2,224,459	11,914,735	14,139,194
Net Assets			
Investment in capital assets net of related debt	13,742,504	20,437,259	34,179,763
Restricted for			
Debt service	142,686	-	142,686
Perpetual care	473,161	-	473,161
Capital improvements	-	10,268,827	10,268,827
Unrestricted	8,708,753	11,779,483	20,488,236
Net Assets	\$ 23,067,104	\$ 42,485,569	\$ 65,552,673

City of Norton Shores

Statement of Net Assets



Component Units	
Tax Increment Finance Authority	Brownfield Redevelopment Authority
\$1,535,667	\$ 78,316
-	-
-	56,987
-	-
-	-
-	-
-	-
1,576,680	-
-	-
-	-
\$3,112,347	\$ 135,303
\$ -	\$ -
641	-
310	-
-	-
-	-
-	-
-	-
951	-
1,576,680	-
-	-
-	-
-	-
1,534,716	135,303
\$3,111,396	\$ 135,303

The accompanying notes are an integral part of this statement.

<i>Year ended June 30, 2007</i>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Government activities				
General government	\$ 2,436,413	\$ 1,103,965	\$ -	\$ -
Public safety	7,230,062	494,373	-	-
Highways and streets	1,561,115	-	-	78,740
Sanitation	383,283	-	-	-
Culture and recreation	548,191	155,437	-	-
Administration	979,422	-	-	-
Community development	76,378	-	-	-
Debt service				
Interest	42,899	-	-	-
Total Government Activities	13,257,763	1,753,775	-	78,740
Business-Type Activities				
Water and sewer	5,315,175	4,936,513	-	-
Total Primary Government	\$ 18,572,938	\$ 6,690,288	\$ -	\$ 78,740
Component Units	\$ 202,473	\$ -	\$ -	\$ -
General Revenues				
Taxes				
Special assessments levied				
Licenses and permits				
Intergovernmental revenue				
Fines and forfeits				
Interest income				
Miscellaneous				
Transfers from component units				
Total General Revenues, Special Items, and Transfers				
Change in Net Assets				
Net Assets, at beginning of year				
Net Assets, at end of year				

City of Norton Shores

Statement of Activities

Total	Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Governmental	Primary Government Business-Type Activities	Total	Tax Increment Finance Authority	Brownfield Redevelopment Authority
\$ 1,103,965	\$ (1,332,448)	\$ -	\$ (1,332,448)	\$ -	\$ -
494,373	(6,735,689)	-	(6,735,689)	-	-
78,740	(1,482,375)	-	(1,482,375)	-	-
-	(383,283)	-	(383,283)	-	-
155,437	(392,754)	-	(392,754)	-	-
-	(979,422)	-	(979,422)	-	-
-	(76,378)	-	(76,378)	-	-
-	(42,899)	-	(42,899)	-	-
1,832,515	(11,425,248)	-	(11,425,248)	-	-
4,936,513	-	(378,662)	-	-	-
<u>\$ 6,769,028</u>	<u>(11,425,248)</u>	<u>(378,662)</u>	<u>(11,425,248)</u>	-	-
<u>\$ -</u>				(184,745)	(17,728)
	6,535,116	-	6,535,116	1,189,293	101,187
	103,659	318,089	421,748	-	-
	751,017	-	751,017	-	-
	3,500,755	-	3,500,755	-	-
	49,014	-	49,014	-	-
	348,836	351,333	700,169	34,734	-
	211,334	29,186	240,520	-	-
	263,075	-	263,075	(263,075)	-
	11,762,806	698,608	12,461,414	960,952	101,187
	337,558	319,946	657,504	776,207	83,459
	22,729,546	42,165,623	64,895,169	2,335,189	51,844
	\$ 23,067,104	\$ 42,485,569	\$ 65,552,673	\$ 3,111,396	\$ 135,303

The accompanying notes are an integral part of this statement.

<i>June 30, 2007</i>	General Fund	Major Streets Fund
Assets		
Cash and cash equivalents	\$ 1,140,687	\$ 38,878
Due from other governments	157,775	208,662
Receivables		
Accounts	199,622	138
Assessments	-	-
Prepaid items	397,956	51,564
Total Assets	\$ 1,896,040	\$ 299,242
Liabilities		
Checks issued against future deposits	\$ -	\$ -
Accounts payable	150,371	16,690
Accrued payroll	74,611	3,572
Unearned revenues	240,402	-
Total Liabilities	465,384	20,262
Fund Balances		
Reserved for debt service	-	-
Reserved for perpetual care	-	-
Unreserved		
Designated for subsequent year's expenditures	-	-
Undesignated	1,430,656	278,980
Total Fund Balances	1,430,656	278,980
Total Liabilities and Fund Balances	\$ 1,896,040	\$ 299,242

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

Capital assets used for government 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 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.

City of Norton Shores

Governmental Funds

Balance Sheet

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 2,284,317	\$ 3,858,734	\$ 7,322,616
62,380	111,659	540,476
24,000	31,584	255,344
-	309,897	309,897
-	540,111	989,631
\$ 2,370,697	\$ 4,851,985	\$ 9,417,964
\$ -	\$ 13,331	\$ 13,331
166,485	13,831	347,377
-	10,971	89,154
3,311	126,991	370,704
169,796	165,124	820,566
-	142,686	142,686
-	473,161	473,161
565,343	240,000	805,343
1,635,558	3,831,014	7,176,208
2,200,901	4,686,861	8,597,398
\$ 2,370,697	\$ 4,851,985	
		13,379,631
		2,481,277
		(1,391,202)
		\$ 23,067,104

The accompanying notes are an integral part of this statement.

<i>Year ended June 30, 2007</i>	General Fund	Major Streets Fund
Revenues		
Taxes	\$4,371,250	\$ -
Special assessments levied	-	-
Licenses and permits	265,117	-
Intergovernmental revenues	1,804,330	1,245,076
Charges for services	1,575,699	-
Fines and forfeits	188,555	-
Interest income	178,386	3,727
Miscellaneous revenue	25,317	36,523
Total Revenues	8,408,654	1,285,326
Expenditures		
General government	2,094,402	-
Public safety	5,249,690	-
Highways and streets	320,246	914,116
Solid waste disposal	-	-
Culture and recreation	548,191	-
Administration	-	252,664
Community development	-	-
Capital outlay	-	786,972
Debt service		
Principal payments	-	-
Interest	-	-
Total Expenditures	8,212,529	1,953,752
Revenues over (under) expenditures	196,125	(668,426)
Other Financing Sources		
Interfund transfers in	-	449,887
Interfund transfers out	-	-
Total Other Financing Sources	-	449,887
Revenues and other sources over (under) expenditures and other uses	196,125	(218,539)
Fund Balance, at beginning of year	1,234,531	497,519
Fund Balance, at end of year	\$1,430,656	\$ 278,980

City of Norton Shores

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,602,404	\$ 561,462	\$ 6,535,116
-	103,659	103,659
-	485,900	751,017
-	530,089	3,579,495
-	37,150	1,612,849
1,385	-	189,940
88,211	78,512	348,836
75,775	73,719	211,334
1,767,775	1,870,491	13,332,246
-	15,992	2,110,394
-	501,581	5,751,271
-	326,753	1,561,115
-	383,283	383,283
-	-	548,191
484,616	242,142	979,422
-	76,378	76,378
643,318	124,183	1,554,473
37,330	320,000	357,330
8,336	34,563	42,899
1,173,600	2,024,875	13,364,756
594,175	(154,384)	(32,510)
-	353,075	802,962
(539,887)	-	(539,887)
(539,887)	353,075	263,075
54,288	198,691	230,565
2,146,613	4,488,170	8,366,833
\$ 2,200,901	\$ 4,686,861	\$ 8,597,398

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, 2007

Net Change in Fund Balances – Total Governmental Funds \$ 230,565

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	1,554,473
Depreciation expense	(1,742,302)

The repayment of long-term debt consumes current financial resources but does not affect net assets	357,330
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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	(13,256)
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The net revenue of certain activities of internal service funds is reported with governmental activities	(49,252)
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Change in Net Assets of Governmental Activities \$ 337,558

The accompanying notes are an integral part of this statement.

City of Norton Shores

Proprietary Funds

Statement of Net Assets

	Water & Sewer Funds	Governmental Activities
		Internal Service Funds
<i>June 30, 2007</i>		
Assets		
Cash and cash equivalents	\$ 1,383,502	\$ 1,204,670
Receivables		
Accounts	926,682	500
Assessments	968,901	-
Prepaid items	70,697	45,530
Inventory of material and supplies	202,651	-
Restricted assets	10,268,827	-
Property, plant and equipment, net of accumulated depreciation (Note 4)	31,940,745	1,243,268
Wastewater facility rights, net of amortization of \$2,515,649	143,611	-
Water plant facility rights, net of amortization of \$923,613	8,494,688	-
Total Assets	\$ 54,400,304	\$ 2,493,968

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

<i>June 30, 2007</i>	Water & Sewer Funds	Governmental Activities
		Internal Service Funds
Liabilities		
Accounts payable	\$ 225,497	\$ 4,165
Accrued payroll	10,623	2,883
Special agreements payable	5,098	-
Deferred revenues	76,392	-
Long-term debt (Note 5)		
Due within one year	555,514	-
Due in more than one year	11,041,611	5,643
Total Liabilities	11,914,735	12,691
Net Assets		
Investment in capital assets, net of related debt	20,437,259	1,243,268
Restricted for capital improvements	10,268,827	-
Unrestricted	11,779,483	1,238,009
Total Net Assets	\$ 42,485,569	\$ 2,481,277

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

	Water & Sewer Funds	Governmental Activities
		Internal Service Funds
<i>Year ended June 30, 2007</i>		
Operating Revenues		
Water sales	\$ 2,687,544	\$ -
Plumbing permits	2,820	-
Sewer service charges	2,186,157	-
Water service installations and direct sewer connections	318,089	-
Penalties on utility billings	59,992	-
Billings to departments	-	1,068,594
Miscellaneous operating revenues	29,186	39,590
Total Operating Revenues	5,283,788	1,108,184
Total Operating Expenses	4,748,163	1,223,202
Operating profit (loss)	535,625	(115,018)
Non-Operating Revenues (Expenses)		
Interest income	351,333	29,937
Gain on sale of equipment	-	35,829
Interest expense	(567,012)	-
Total Non-Operating Revenues (Expenses)	(215,679)	65,766
Change in Net Assets	319,946	(49,252)
Net Assets, at beginning of year	42,165,623	2,530,529
Net Assets, at end of year	\$ 42,485,569	\$ 2,481,277

The accompanying notes are an integral part of this statement.

City of Norton Shores

Proprietary Funds

Statement of Cash Flows

<i>Year ended June 30, 2007</i>	Water & Sewer Funds	Governmental Activities <u>Internal Service Funds</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 535,625	\$ (115,018)
Adjustments to reconcile operating income to net cash provided by operations		
Decrease in deferred revenue	(40,421)	-
Depreciation and amortization	1,377,589	432,391
Changes in assets and liabilities		
Accounts receivable	(15,884)	(209)
Prepaid expenses	(29,502)	(2,703)
Inventory	(1,355)	-
Accounts payable	(65,950)	802
Accrued liabilities	223	1,077
Total Cash Flows from Operating Activities	1,760,325	316,340
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(574,607)	-
Interest payments on long-term debt	(567,012)	-
Increase in compensated absences	64	-
Proceeds from sale of fixed assets	-	35,829
Purchase of fixed assets	-	(421,082)
Construction of water and sewer lines	(945,883)	-
Collections of special assessments	170,884	-
Total Cash Flows from Capital and Related Financing Activities	(1,916,554)	(385,253)
Cash Flows from Investing Activities		
Interest income	351,333	29,937
Increase (Decrease) in Cash and Cash Equivalents	195,104	(38,976)
Cash and Cash Equivalents , at beginning of year	11,457,225	1,243,646
Cash and Cash Equivalents, at end of year	\$ 11,652,329	\$ 1,204,670
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 1,383,502	\$ 1,204,670
Restricted assets	10,268,827	-
	\$ 11,652,329	\$ 1,204,670

The accompanying notes are an integral part of this statement.

City of Norton Shores

Fiduciary Funds

Statement of Fiduciary Net Assets

	Agency Funds
<i>June 30, 2007</i>	
<hr/>	
Assets	
Cash and cash equivalents	\$ 30,642
<hr/>	
Liabilities	
Performance deposits	\$ 17,525
Due to other governments	13,117
<hr/>	
	\$ 30,642
<hr/>	

The accompanying notes are an integral part of this statement.

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 30th year end.

City of Norton Shores

Notes to Basic Financial Statements

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.

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.

City of Norton Shores

Notes to Basic Financial Statements

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

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.

City of Norton Shores

Notes to Basic Financial Statements

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.

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.

The City first utilizes restricted resources to finance qualifying activities.

City of Norton Shores

Notes to Basic 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.

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

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

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.

City of Norton Shores

Notes to Basic Financial Statements

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.

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.

City of Norton Shores

Notes to Basic Financial Statements

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.

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.

City of Norton Shores

Notes to Basic Financial Statements

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.

Property Taxes

Property taxes attach as enforceable liens on property as of December 31st. Taxes are levied on July 1st of the following year and are payable from the date of levy through August 31st without penalty and until March 1st 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 1st).

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, 2007 was \$7.70 per \$1,000 of taxable valuation.

City of Norton Shores

Notes to Basic Financial Statements

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, 2007 are recorded as prepaid items. These prepaid items are primarily insurance premiums and fiscal year 2008 memberships invoiced prior to July 1, 2007. The City follows the consumption method of accounting in reporting these items and, therefore, no offset by a fund balance reserve is required.

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

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.

City of Norton Shores

Notes to Basic Financial Statements

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

Assets	Years
Buildings and additions	20-50
Vehicles	4-8
Furniture and other equipment	10
Infrastructure	20

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.

City of Norton Shores

Notes to Basic Financial Statements

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.

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.

City of Norton Shores

Notes to Basic Financial Statements

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. Cash and Temporary Investments

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk related to deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. It is the City's policy to reduce custodial credit risk related to deposits by using only pre-qualified financial institutions, broker/dealers, intermediaries and advisors. At June 30, 2007, \$1,091,389 of the City's bank balances of \$1,191,389 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,091,389</u>
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City of Norton Shores

Notes to Basic Financial Statements

Investments

At June 30, 2007, the City had the following investments:

<u>Investment</u>	<u>Fair Value</u>
GNMA Bonds	\$ 13,509,628
Certificates of Deposit	535,962
Money Market Funds	2,985
Mutual Funds	2,724,711
Unit Investment Trusts	3,019,784
Closed-end funds	482,500
<hr/>	<hr/>
Total	\$ 20,275,570

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. It is the City's policy to reduce interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Custodial Credit Risk Related to Investments

Custodial credit risk related to investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. All of the City's investments are held in the name of the City.

City of Norton Shores

Notes to Basic Financial Statements

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The City had no investment policy that would further limit its investment choices. The City's investment in unit investment trusts, money market funds and closed-end funds were not rated at June 30, 2007.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

City of Norton Shores

Notes to Financial Statements

4. Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental Activities				
Capital assets, not depreciable:				
Land	\$ 1,875,699	\$ -	\$ -	\$ 1,875,699
Capital assets being depreciated:				
Buildings	2,855,197	21,897	-	2,877,094
Land improvements	1,341,928	36,782	-	1,378,710
Machinery, equipment, vehicles and fixtures	11,273,012	1,005,720	381,103	11,897,629
Infrastructure	18,696,513	911,156	-	19,607,669
Total assets being depreciated	34,166,650	1,975,555	381,103	35,761,102
Less accumulated depreciation for:				
Buildings	(1,610,433)	(57,542)	-	(1,667,975)
Improvements	(597,791)	(27,574)	-	(625,365)
Machinery, equipment, vehicles and fixtures	(7,855,113)	(1,219,401)	381,103	(8,693,411)
Infrastructure	(11,156,975)	(870,176)	-	(12,027,151)
Total accumulated depreciation	(21,220,312)	(2,174,693)	381,103	(23,013,902)
Total capital assets being depreciated, net	12,946,338	(199,138)	-	12,747,200
Governmental Activities—Capital Assets, Net	\$ 14,822,037	\$ (199,138)	\$ -	\$ 14,622,899

City of Norton Shores

Notes to Financial Statements

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Business-Type				
Capital assets, not depreciable:				
Land	\$ 250	\$ -	\$ -	\$ 250
Construction in progress	3,828,340	-	129,121	3,699,219
	3,828,590	-	129,121	3,699,469
Capital assets being depreciated:				
Regional water system	1,510,285	-	-	1,510,285
Water mains and hydrants	9,568,537	405,145	-	9,973,682
Meters	12,348	-	-	12,348
Sewers and lift stations	35,637,988	669,859	-	36,307,847
Machinery and equipment	114,912	-	-	114,912
Wastewater treatment	5,400,608	-	-	5,400,608
Total assets being depreciated	52,244,678	1,075,004	-	53,319,682
Less accumulated depreciation for:				
Water mains and hydrants	(3,961,085)	(172,225)	-	(4,133,310)
Meters	(12,348)	-	-	(12,348)
Sewers and lift stations	(16,559,913)	(722,141)	-	(17,282,054)
Machinery and equipment	(114,537)	(375)	-	(114,912)
Wastewater treatment	(3,427,770)	(108,012)	-	(3,535,782)
Total accumulated depreciation	(24,075,653)	(1,002,753)	-	(25,078,406)
Total capital assets being depreciated, net	28,169,025	72,251	-	28,241,276
Business-type Activities—Capital Assets, Net	\$ 31,997,615	\$ 72,251	\$ 129,121	\$ 31,940,745
Component units				
Tax Increment Finance				
Capital assets, not depreciable:				
Land	\$ -	\$ 171,906	\$ -	\$ 171,906
Capital assets being depreciated:				
Building and infrastructure	\$ 1,406,973	\$ 86,301	\$ -	\$ 1,493,274
Total assets being depreciated	1,406,973	86,301	-	1,493,274
Less accumulated depreciation for:				
Building and infrastructure	(36,441)	(52,059)	-	(88,500)
Component Unit—Capital Assets, Net	\$ 1,370,532	\$ 34,242	\$ -	\$ 1,576,680

City of Norton Shores

Notes to Basic Financial Statements

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

Governmental activities:	
General government	\$ 695,902
Public safety	1,478,791
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Total Depreciation Expense - Governmental Activities	\$ 2,174,693
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Business-Type activities:	
Water and Sewer	\$ 1,002,753
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5. Long-Term Debt The following is a summary of the long-term debt outstanding of the City as of June 30, 2007.

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental Activities					
1993 Michigan Transportation Fund Bonds maturing through 2008, interest ranging from 3.125% - 4.875%.	\$ 950,000	\$ -	\$ (300,000)	\$ 650,000	\$ 300,000
CDBG Act 108 loan payable in installments of \$20,000. Final payment due August 1, 2009	85,000	-	(20,000)	65,000	20,000
Installment loan payable in annual installments of \$45,666 including interest at 4.10%. Final payment due September 2010	202,725	-	(37,330)	165,395	38,884
Accumulated compensated absences	502,204	14,246	-	516,450	-
<hr/>					
Total Governmental Activities					
Long-Term Debt	\$ 1,739,929	\$ 14,246	\$ (357,330)	\$ 1,396,845	\$ 358,884
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City of Norton Shores

Notes to Basic Financial Statements

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Business Type Activities					
Obligations under contract with County of Muskegon	\$ 3,352,178	\$ -	\$ (343,380)	\$ 3,008,798	\$ 368,798
Obligations under contract with the City of Muskegon Heights	8,725,914	-	(231,226)	8,494,688	186,716
Accumulated compensated absences	93,576	63	-	93,639	-
Total Business Type Activities					
Long-Term Debt	\$ 12,171,668	\$ 63	\$ (574,606)	\$ 11,597,125	\$ 555,514
Total All Long-Term Liabilities	\$ 13,911,597	\$ 14,309	\$ (931,936)	\$ 12,993,970	\$ 914,398

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 \$20,840 to \$208,180, with \$217,548 due in 2008.

City of Norton Shores

Notes to Basic Financial Statements

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 50.62% 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 required payment for principal and interest amounted to \$12,383,881 and \$8,095,188, respectively at June 30, 2007 as follows:

	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2008-2012	\$ 880,395	\$ 47,327	\$ 2,031,438	\$ 2,871,265
2013-2017	-	-	2,410,531	2,323,285
2019-2022	-	-	2,577,388	1,611,608
2023	-	-	4,484,129	1,241,703
	\$ 880,395	\$ 47,327	\$11,503,486	\$ 8,047,861

6. Interfund Transfers

Interfund transfers during the fiscal year were as follows:

<i>Fund</i>	Transfer in	Transfer out
Major Streets	\$ 449,887	\$ -
Capital Improvements	-	539,887
Local Improvement	25,000	-
Debt Service	328,075	-
Tax Incremental Finance Authority	-	263,075
	\$ 802,962	\$ 802,962

The transfers to the major streets fund and local improvements fund were for the construction of capital projects. The transfer to the debt service fund was for future retirement of debt.

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 June 2004, the Governmental Accounting Standards Board ("GASB") issued its Statement No. 45 - *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension*. Other post-employment benefits ("OPEB") include post-employment healthcare insurance as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense / expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The City currently provides certain healthcare benefits for retired employees. All of the City's full-time employees may become eligible for these benefits if they qualify for retirement while employed by the City. Similar to other governmental units, the City has funded its OPEB program on a pay-as-you-go basis, but will be required to begin reporting OPEB on an actuarial basis in its fiscal year beginning July 1, 2008.

City of Norton Shores

Notes to Basic Financial Statements

As of year end, there were 57 retired employees receiving benefits. For the year ended June 30, 2007, the City's post-retirement health care cost under the Plan was approximately \$417,000.

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.

Funding Policy

CNSERS members are not required to contribute. The City is required to contribute at actuarially determined rates; the current rates range from 14.14% to 39.26% 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.

City of Norton Shores

Notes to Basic Financial Statements

Annual Pension Cost

For the year ending June 30, 2007, the City's annual pension cost of \$1,162,621 for CNSERS was equal to the City's required contributions. The required contribution was determined as part of the December 31, 2006 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 8.74% 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

<u>Fiscal year ended:</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 903,630	100	\$ -
6/30/2006	949,075	100	-
6/30/2007	1,162,621	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, 2007, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

<i>Year ended June 30, 2007</i>	Appropriation	Actual Expenditures
City Administrator	\$ 233,234	\$ 233,331
Accounting	140,781	140,918
Legal Services	119,200	124,641
Records and Information	148,445	150,898
City Treasurer	161,879	162,079
Building and Grounds Maintenance	156,958	157,246
Cemetery	41,714	41,920
General Support	72,915	76,429
Library	102,854	103,358
Fire Management Operations	1,463,339	1,497,900
Public Works Management	8,980	10,638
Building Inspection	555,603	557,224
Capital Improvement - Police Management	219,148	219,196
Water System Maintenance	713,690	1,083,658
Water Supply	700,000	707,058
Meter Reading	64,503	64,548
Sewer System Maintenance	407,139	1,351,283
Equipment Revolving - Equipment Maintenance	768,669	1,223,202
Local Streets - Capital Outlay	-	7,962
Building - Public Safety	499,960	501,581

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

12. Restatement of Net Assets

During the year ended June 30, 2007, the City made an adjustment to the beginning net assets previously reported in the financial statements to retroactively report general infrastructure assets that had not been capitalized in the prior year, net of depreciation expense. The result of this adjustment was to increase beginning net assets in the governmental activities from \$22,413,541 to \$22,729,546.



Required Supplemental Information



<i>Year ended June 30, 2007</i>	General Fund			
	Original Budget	Final Budget	Actual	Difference
Revenues				
Taxes	\$ 4,273,300	\$ 4,330,293	\$ 4,371,250	\$ 40,957
Licenses and permits	237,300	237,300	265,117	27,817
Intergovernmental revenue				
Federal	-	6,707	-	(6,707)
State	1,845,315	1,789,110	1,804,330	15,220
Charges for services	1,786,500	1,670,000	1,575,699	(94,301)
Fines and forfeits	160,750	160,750	188,555	27,805
Interest income	115,000	115,000	178,386	63,386
Miscellaneous	25,000	25,000	25,317	317
Total Revenues	8,443,165	8,334,160	8,408,654	74,494
Expenditures				
Current operations				
General government	2,146,607	2,106,318	2,094,402	(11,916)
Public safety	5,357,427	5,323,964	5,249,690	(74,274)
Highways and streets	327,880	322,880	320,246	(2,634)
Culture and recreation	611,251	581,333	548,191	(33,142)
Administration	-	-	-	-
Total Expenditures	8,443,165	8,334,495	8,212,529	(121,966)
Revenues Over (Under) Expenditures	-	(335)	196,125	196,460
Other Financing Sources (Uses)				
Interfund transfers in	-	-	-	-
Interfund transfers (out)	-	-	-	-
	-	-	-	-
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(335)	196,125	196,460
Fund Balance, at beginning of year	1,234,531	1,234,531	1,234,531	-
Fund Balance, at end of year	\$ 1,234,531	\$ 1,234,196	\$ 1,430,656	\$ 196,460

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
\$ -	\$ -	\$ -	\$ -
-	-	-	-
633,819	-	-	-
1,444,416	1,436,897	1,245,076	(191,821)
-	-	-	-
-	-	-	-
7,250	7,250	3,727	(3,523)
5,000	42,519	36,523	(5,996)
2,090,485	1,486,666	1,285,326	(201,340)
-	-	-	-
-	-	-	-
3,004,678	1,823,162	1,701,088	(122,074)
-	-	-	-
-	253,260	252,664	(596)
3,004,678	2,076,422	1,953,752	(122,670)
(914,193)	(589,756)	(668,426)	(78,670)
449,887	449,887	449,887	-
-	-	-	-
449,887	449,887	449,887	-
(464,306)	(139,869)	(218,539)	(78,670)
497,519	497,519	497,519	-
\$ 33,213	\$ 357,650	\$ 278,980	\$ (78,670)



City of Norton Shores

Required Supplementary Information for Pension Plans - GASB 27



Actual 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:						
2004	16,884,882	26,218,103	9,333,221	64.40%	4,797,527	194.54%
2005	17,440,195	27,651,800	10,211,605	63.07%	4,909,378	208.00%
2006	18,373,178	29,269,380	10,896,202	62.77%	5,179,608	210.37%

	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
<i>June 30, 2007</i>				
Assets				
Cash and cash equivalents	\$ 290,551	\$ 1,046,362	\$ 237,820	\$ -
Due from other governments	72,928	21,833	-	16,898
Accounts receivable	1,182	-	340	27,700
Special assessments receivable	-	-	-	-
Prepaid items	16,250	-	11,828	-
Total Assets	\$ 380,911	\$ 1,068,195	\$ 249,988	\$ 44,598
Liabilities and Fund Balances				
Liabilities				
Checks issued against future deposits	\$ -	\$ -	\$ -	\$ 13,331
Accounts payable	1,841	1,193	10,474	323
Accrued payroll	3,616	3,837	3,518	-
Unearned revenues	-	-	-	3,040
Total Liabilities	5,457	5,030	13,992	16,694
Fund balances				
Reserved for debt service	-	-	-	-
Reserved for perpetual care	-	-	-	-
Unreserved				
Designated for subsequent year's expenditures	-	-	-	-
Undesignated	375,454	1,063,165	235,996	27,904
Total Fund Balances	375,454	1,063,165	235,996	27,904
Total Liabilities and Fund Balances	\$ 380,911	\$ 1,068,195	\$ 249,988	\$ 44,598

City of Norton Shores

Combining Balance Sheet - Non-Major Governmental Funds

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$ 1,048,277	\$ 142,686	\$ 619,877	\$ 473,161	\$ 3,858,734
-	-	-	-	111,659
2,362	-	-	-	31,584
235,200	74,697	-	-	309,897
512,033	-	-	-	540,111
\$ 1,797,872	\$ 217,383	\$ 619,877	\$ 473,161	\$ 4,851,985
\$ -	\$ -	\$ -	\$ -	\$ 13,331
-	-	-	-	13,831
-	-	-	-	10,971
49,254	74,697	-	-	126,991
49,254	74,697	-	-	165,124
-	142,686	-	-	142,686
-	-	-	473,161	473,161
-	-	240,000	-	240,000
1,748,618	-	379,877	-	3,831,014
1,748,618	142,686	619,877	473,161	4,686,861
\$ 1,797,872	\$ 217,383	\$ 619,877	\$ 473,161	\$ 4,851,985

<i>Year ended June 30, 2007</i>	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
Revenues				
Taxes	\$ -	\$ 560,951	\$ -	\$ -
Licenses and permits	-	-	485,900	-
Assessments levied	-	-	-	-
Sale of cemetery lots	-	-	-	-
Intergovernmental revenue				
Federal	-	-	-	85,948
State	444,141	-	-	-
Interest income	8,783	9,208	8,935	-
Miscellaneous revenue	974	222	-	33,282
Total Revenues	453,898	570,381	494,835	119,230
Expenditures				
Public safety	-	-	501,581	-
Highways and streets	326,753	-	-	-
Administration	132,588	53,911	55,643	-
Cemetery maintenance	-	-	-	-
Community development	-	-	-	76,378
Solid waste disposal	-	383,283	-	-
Capital outlay	7,962	-	-	-
Debt service				
Principal payments	-	-	-	20,000
Interest	-	-	-	6,488
Total Expenditures	467,303	437,194	557,224	102,866
Revenues over (under) expenditures	(13,405)	133,187	(62,389)	16,364
Other Financing Sources (Uses)				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Revenues and other sources over (under) expenditures and other uses	(13,405)	133,187	(62,389)	16,364
Fund Balance, at beginning of year	388,859	929,978	298,385	11,540
Fund Balance, at end of year	\$ 375,454	\$ 1,063,165	\$ 235,996	\$ 27,904

City of Norton Shores

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

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$ -	\$ 511	\$ -	\$ -	\$ 561,462
-	-	-	-	485,900
103,659	-	-	-	103,659
-	-	-	37,150	37,150
-	-	-	-	85,948
-	-	-	-	444,141
15,095	7,560	12,939	15,992	78,512
-	39,241	-	-	73,719
118,754	47,312	12,939	53,142	1,870,491
-	-	-	-	501,581
-	-	-	-	326,753
-	-	-	-	242,142
-	-	-	15,992	15,992
-	-	-	-	76,378
-	-	-	-	383,283
116,221	-	-	-	124,183
-	300,000	-	-	320,000
-	28,075	-	-	34,563
116,221	328,075	-	15,992	2,024,875
2,533	(280,763)	12,939	37,150	(154,384)
25,000	328,075	-	-	353,075
-	-	-	-	-
25,000	328,075	-	-	353,075
27,533	47,312	12,939	37,150	198,691
1,721,085	95,374	606,938	436,011	4,488,170
\$ 1,748,618	\$ 142,686	\$ 619,877	\$ 473,161	\$ 4,686,861

<i>Year ended June 30, 2007</i>	Local Street		
	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	-	-	-
State	477,812	444,141	(33,671)
Interest income	11,000	8,783	(2,217)
Miscellaneous revenue	-	974	974
Total Revenues	488,812	453,898	(34,914)
Expenditures			
Public safety	-	-	-
Highways and streets	356,500	326,753	(29,747)
Administration	138,080	132,588	(5,492)
Community development	-	-	-
Solid waste disposal	-	-	-
Capital outlay	-	7,962	7,962
Debt service			
Principal payments	-	-	-
Interest	-	-	-
Total Expenditures	494,580	467,303	(27,277)
Revenues over (under) expenditures	(5,768)	(13,405)	(7,637)
Other Financing Sources (Uses)			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	(5,768)	(13,405)	(7,637)
Fund Balance, at beginning of year	388,859	388,859	-
Fund Balance, at end of year	\$ 383,091	\$ 375,454	\$ (7,637)

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
\$ 559,362	\$ 560,951	\$ 1,589	\$ -	\$ -	\$ -
-	-	-	544,000	485,900	(58,100)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25,000	9,208	(15,792)	11,603	8,935	(2,668)
1,000	222	(778)	-	-	-
585,362	570,381	(14,981)	555,603	494,835	(60,768)
-	-	-	499,960	501,581	1,621
-	-	-	-	-	-
53,911	53,911	-	55,643	55,643	-
-	-	-	-	-	-
510,200	383,283	(126,917)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
564,111	437,194	(126,917)	555,603	557,224	1,621
21,251	133,187	111,936	-	(62,389)	(62,389)
-	-	-	-	-	-
-	-	-	-	-	-
21,251	133,187	111,936	-	(62,389)	(62,389)
929,978	929,978	-	298,385	298,385	-
\$ 951,229	\$ 1,063,165	\$ 111,936	\$ 298,385	\$ 235,996	\$ (62,389)

<i>Year ended June 30, 2007</i>	<u>Community Development Program</u>		
	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	132,000	85,948	(46,052)
State	-	-	-
Interest income	-	-	-
Miscellaneous revenue	-	33,282	33,282
Total Revenues	132,000	119,230	(12,770)
Expenditures			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Community development	104,000	76,378	(27,622)
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	20,000	20,000	-
Interest	8,000	6,488	(1,512)
Total Expenditures	132,000	102,866	(29,134)
Revenues over (under) expenditures	-	16,364	16,364
Other Financing Sources (Uses)			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	-	16,364	16,364
Fund Balance, at beginning of year	11,540	11,540	-
Fund Balance, at end of year	\$ 11,540	\$ 27,904	\$ 16,364

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
\$ -	\$ -	\$ -
-	-	-
125,000	103,659	(21,341)
-	-	-
-	-	-
-	-	-
21,500	15,095	(6,405)
-	-	-
146,500	118,754	(27,746)
-	-	-
-	-	-
-	-	-
-	-	-
140,500	116,221	(24,279)
-	-	-
-	-	-
140,500	116,221	(24,279)
6,000	2,533	(3,467)
25,000	25,000	-
-	-	-
25,000	25,000	-
31,000	27,533	(3,467)
1,721,085	1,721,085	-
\$ 1,752,085	\$ 1,748,618	\$ (3,467)

<i>Year ended June 30, 2007</i>	Debt Service		
	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ 511	\$ 511
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	-	-	-
State	-	-	-
Interest income	5,000	7,560	2,560
Miscellaneous revenue	28,360	39,241	10,881
Total Revenues	33,360	47,312	13,952
Expenditures			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Cemetery maintenance	-	-	-
Community development	-	-	-
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	300,000	300,000	-
Interest	28,075	28,075	-
Total Expenditures	328,075	328,075	-
Revenues over (under) expenditures	(294,715)	(280,763)	13,952
Other Financing Sources (Uses)			
Interfund transfers in	328,075	328,075	-
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	328,075	328,075	-
Revenues and other sources over (under) expenditures and other uses	33,360	47,312	13,952
Fund Balance, at beginning of year	95,374	95,374	-
Fund Balance, at end of year	\$ 128,734	\$ 142,686	\$ 13,952

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	37,150	37,150
-	-	-	-	-	-
-	-	-	-	-	-
20,000	12,939	(7,061)	-	15,992	15,992
-	-	-	-	-	-
20,000	12,939	(7,061)	-	53,142	53,142
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	15,992	15,992
-	-	-	-	-	-
-	-	-	-	-	-
240,000	-	(240,000)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
240,000	-	(240,000)	-	15,992	15,992
(220,000)	12,939	232,939	-	37,150	37,150
-	-	-	-	-	-
-	-	-	-	-	-
(220,000)	12,939	232,939	-	37,150	37,150
606,938	606,938	-	436,011	436,011	-
\$ 386,938	\$ 619,877	\$ 232,939	\$ 436,011	\$ 473,161	\$ 37,150

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Balance Sheet

June 30, 2007

Assets

Current Assets

Cash and cash equivalents	\$ 1,204,670
Accounts receivable	500
Prepaid expenses	45,530

Total Current Assets 1,250,700

Equipment, net of accumulated depreciation
of \$2,784,268 1,243,268

Total Assets 2,493,968

Liabilities and Net Assets

Current Liabilities

Accounts payable	4,165
Accrued payroll	2,883
Compensated absences payable	5,643

Total Liabilities 12,691

Net Assets

Invested in capital assets – net of related debt	1,243,268
Reserved for replacement	1,238,009

Total Net Assets \$ 2,481,277

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2007

Operating Revenues

Billings to departments	\$ 1,068,594
Miscellaneous operating revenues	39,590

Total Operating Revenues 1,108,184

Total Operating Expenses 1,223,202

Operating loss (115,018)

Non-Operating Revenues (Expenses)

Interest income	29,937
Gain on sale of equipment	35,829

Total Non-Operating Revenues (Expenses) 65,766

Net Loss (49,252)

Net Assets, at beginning of year 2,530,529

Net Assets, at end of year \$ 2,481,277

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Statement of Cash Flows

Year ended June 30, 2007

Cash Flows from Operating Activities

Operating loss	\$ (115,018)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	432,391
Changes in assets and liabilities	
Accounts receivable	(209)
Prepaid expenses	(2,703)
Accounts payable	802
Accrued liabilities	1,077

Total Cash Flows from Operating Activities 316,340

Cash Flows from Capital and Related Financing Activities

Proceeds from sale of fixed assets	35,829
Purchase of fixed assets	(421,082)

Total Cash Flows from Capital and Related Financing Activities (385,253)

Cash Flows from Investing Activities

Interest income	29,937
-----------------	--------

Decrease in Cash (38,976)

Cash, at beginning of year 1,243,646

Cash, at end of year \$ 1,204,670

City of Norton Shores

Agency Funds - Trust and Agency

Balance Sheet

June 30, 2007

Assets and Other Debits	
Cash and cash equivalents	\$ 30,642
<hr/>	
Total Assets and Other Debits	\$ 30,642
<hr/>	
Liabilities	
Liabilities	
Performance deposits	\$ 17,525
Due to other governments	13,117
<hr/>	
Total Liabilities	\$ 30,642

City of Norton Shores

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Trust and Agency - Taxes				
Assets				
Cash and cash equivalents	\$ 1	\$ 33,746,185	\$ 33,746,186	\$ -
Liabilities				
Due to other funds	\$ 1	\$ -	\$ 1	\$ -
Due to other governments	-	33,746,185	33,746,185	-
	\$ 1	\$ 33,746,185	\$ 33,746,186	\$ -
Trust and Agency – Other				
Assets				
Cash and cash equivalents	\$ 583,508	\$ 377,840	\$ 930,706	\$ 30,642
Liabilities				
Performance deposits	\$ 551,465	\$ 64,462	\$ 598,402	\$ 17,525
Due to other governments	32,043	314,503	333,429	13,117
	\$ 583,508	\$ 378,965	\$ 931,831	\$ 30,642

City of Norton Shores

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Total Trust and Agency				
Assets				
Cash and cash equivalents	\$ 583,509	\$ 34,124,025	\$ 34,676,892	\$ 30,642
Liabilities				
Due to other funds	\$ 1	\$ -	\$ 1	\$ -
Performance deposits	551,465	64,462	598,402	17,525
Due to other governments	32,043	34,060,688	34,079,614	13,117
	\$ 583,509	\$ 34,125,150	\$ 34,678,017	\$ 30,642

**City of Norton Shores,
Michigan**

Management Letter
Year ended June 30, 2007



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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, 2007 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

October 15, 2007

City of Norton Shores, Michigan

Current Year Comments

New Pronouncements

There are several new pronouncements that have been issued by the Governmental Accounting Standards Board (GASB) that will affect future comprehensive annual financial reports issued by the City. A brief summary of these new pronouncements is listed below:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* addresses how the City should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively these benefits are referred to as other postemployment benefits (OPEB). It will require the City to account for OPEB essentially the same as you do for pensions. This will require an actuarial valuation for the applicable OPEB plans. This pronouncement will be effective for the City for the year ending June 30, 2009.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* discusses how to identify and report pollution remediation obligations. The pronouncement identifies five obligating events which could trigger recording a liability and will be effective for the year ending June 30, 2009.

GASB Statement No. 50, *Pension Disclosures* amends Statements No. 25 and 27 to more closely align the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) by requiring disclosure of the funded status of the plan as of the most recent actuarial valuation date in the footnotes to financial statements. This pronouncement will be effective for the year ending June 30, 2008.

GASB Invitation to Comment, *Fund Balance Reporting* attempts to clarify the availability of resources in funds other than the General Fund and define what is meant by “legally restricted”.

City of Norton Shores, Michigan

Current Year Comments

There are several new pronouncements issued by the American Institute of Certified Public Accountants (AICPA).

The AICPA has issued eight statements commonly referred to as the *Risk Assessment Standards* to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the City's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements. These standards will be effective for the year ending June 30, 2008.

Recommendation

Review the new pronouncements to determine changes necessary to ensure that the City is in compliance with applicable financial statement and note disclosures.