

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2014

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

Mayor	Norman Carlson
Mayor Pro Tem	Lyle Gennett
Council Member	Jeff Porter
Council Member	Peggy Brennan
Council Member	Leon Perron
Council Member	Shane Cole
Council Member	Shirley Gibson

Appointed Officials

City Manager	Robert Straebel
Attorney	Scott Howard
Clerk	Joyce Golding
Treasurer	Joe Zielinski
Planning Director/Zoning Administrator	Mike Spencer
Public Safety Director	Gerard Doan
Street Superintendent	Pat Elliott
Electric & Water Superintendent	Donald Swem
Wastewater/Water Superintendent	Steve Teunis
Community Economic Development Director	Bethany Pearson
Airport Manager	Matthew Wyman
Harbormaster	Hal Evans
Recreation Director	Thomas Kirinovic
Golf Course Manager	Tom Heid

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INDEPENDENT AUDITORS' REPORT

September 11, 2014

City Council
City of Charlevoix
Charlevoix, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, our report dated September 11, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Charlevoix, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2014.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by approximately \$60,977,000 (net position). Of this amount, approximately \$10,525,000 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net position increased by approximately \$311,000.
- At March 31, 2014, the City's governmental funds reported combined ending fund balances of approximately \$2,015,000, a decrease of approximately \$217,000 from the prior year. Approximately 57% of this total amount or approximately \$1,142,000 is unassigned and is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$1,142,000 or 33% percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include legislative, general government, public safety, public works, health and welfare, recreation and culture, and other expenditures. The business-type activities of the City include electric, sewer, water, marina and airport operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate component unit - the Downtown Development Authority - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be the City's only major governmental fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate compliance with the General Fund budget.

Proprietary funds. The City maintains two different 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 enterprise funds to account for its electric, sewage disposal, water distribution, marina operations and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool, employee fringe benefits and Department of Public Works (DPW). Because the motor pool and employee fringe benefit funds predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the government-wide financial statements. The DPW is used for site maintenance and its services predominantly benefit business-type activities and it has been combined with business-type 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 electric utility, sewage disposal utility, water utility, marina and airport funds, each of which are considered to be major funds of the City.

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 statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$60,977,000 at the close of the most recent fiscal year.

By far the largest portion of the City's net position (82 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

An additional portion of the City's net position (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (17 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Cash and other assets	\$ 2,985,713	\$ 3,152,242	\$ 8,976,520	\$ 8,417,751	\$ 11,962,233	\$ 11,569,993
Capital assets, net	26,404,155	26,160,154	28,900,191	29,452,667	55,304,346	55,612,821
Total assets	29,389,868	29,312,396	37,876,711	37,870,418	67,266,579	67,182,814
Other liabilities	233,664	407,390	939,946	751,851	1,173,610	1,159,241
Long-term liabilities	270,898	275,744	4,845,268	5,082,036	5,116,166	5,357,780
Total liabilities	504,562	683,134	5,785,214	5,833,887	6,289,776	6,517,021
Net position						
Net investment in capital assets	26,404,155	26,160,154	23,358,423	23,670,631	49,762,578	49,830,785
Restricted	689,475	919,671	-	-	689,475	919,671
Unrestricted	1,791,676	1,549,437	8,733,074	8,365,900	10,524,750	9,915,337
Total net position	\$ 28,885,306	\$ 28,629,262	\$ 32,091,497	\$ 32,036,531	\$ 60,976,803	\$ 60,665,793

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net position increased by approximately \$311,000 during the current fiscal year.

	Change in Net position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 880,138	\$ 896,048	\$ 9,417,375	\$ 9,538,627	\$ 10,297,513	\$ 10,434,675
Operating grants and contributions	439,888	392,547	743,180	308,055	1,183,068	700,602
Capital grants and contributions	-	-	209,000	242,221	209,000	242,221
General revenues:						
Property taxes	2,908,352	2,898,942	-	-	2,908,352	2,898,942
State shared revenue	234,545	216,297	-	-	234,545	216,297
Other revenue	17,207	20,332	-	-	17,207	20,332
Unrestricted investment earnings	7,002	5,081	-	-	7,002	5,081
Total revenues	4,487,132	4,429,247	10,369,555	10,088,903	14,856,687	14,518,150
Expenses:						
Legislative	40,219	41,227	-	-	40,219	41,227
General government	693,278	686,198	-	-	693,278	686,198
Public safety	1,180,816	1,184,487	-	-	1,180,816	1,184,487
Public works	753,550	753,187	-	-	753,550	753,187
Health and welfare	356,386	383,352	-	-	356,386	383,352
Recreation and culture	980,043	952,644	-	-	980,043	952,644
Other	65,353	82,404	-	-	65,353	82,404
Electric utility	-	-	5,448,357	5,417,859	5,448,357	5,417,859
Sewage disposal utility	-	-	1,179,008	1,093,678	1,179,008	1,093,678
Water utility	-	-	1,090,569	1,048,440	1,090,569	1,048,440
Marina	-	-	1,128,114	1,110,476	1,128,114	1,110,476
Airport	-	-	1,629,984	1,795,481	1,629,984	1,795,481
Total expenses	4,069,645	4,083,499	10,476,032	10,465,934	14,545,677	14,549,433

CITY OF CHARLEVOIX, MICHIGAN

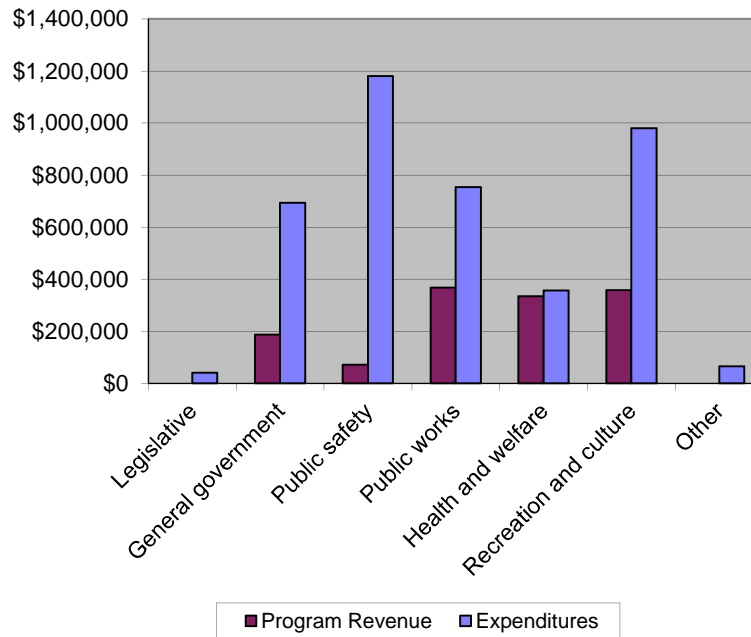
Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Change in net position, before transfers	\$ 417,487	\$ 345,748	\$ (106,477)	\$ (377,031)	\$ 311,010	\$ (31,283)
Transfers	(161,443)	(199,850)	161,443	199,850	-	-
Change in net position	256,044	145,898	54,966	(177,181)	311,010	(31,283)
Net position:						
Beginning of year	28,629,262	28,483,364	32,036,531	32,213,712	60,665,793	60,697,076
End of year	\$ 28,885,306	\$ 28,629,262	\$ 32,091,497	\$ 32,036,531	\$ 60,976,803	\$ 60,665,793

Governmental activities. Governmental activities increased the City's net position by approximately \$256,000. Key elements of this increase are as follows:

- Revenues exceeded expenditures by approximately \$417,000 as operating grants and contributions, state shared revenue and property taxes all increased compared to the prior fiscal year while health and welfare and other expenses decreased.
- There was a net transfer out of governmental activities of approximately \$161,000 to provide funding to the City's business-type activities. This was a decrease of approximately \$38,000 compared to the prior fiscal year.

Program Revenues and Expenditures - Governmental Activities

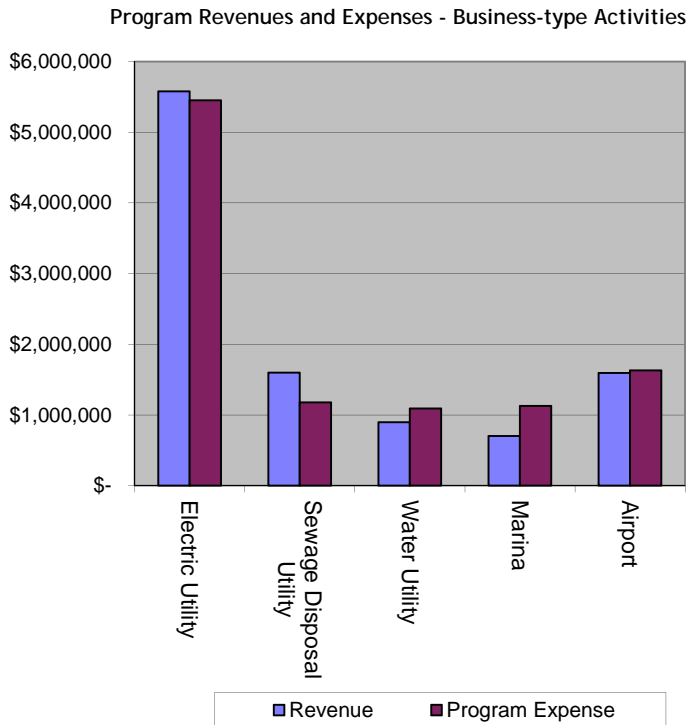


CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Business-type activities. Business-type activities increased the City's net position by approximately \$55,000. Key elements of this change are as follows:

- Electric utility activities increased the City's net position by approximately \$129,000 with charges for services exceeding expenses by approximately \$115,000 and with nearly \$14,000 coming from operating grants and contributions.
- Sewage disposal utility activities improved the City's net position by approximately \$418,000. This was due to receiving approximately \$428,000 in operating grants and contributions related to the Wastewater Treatment Plant project. Despite a 3% increase in sewer rates, charges for services were still lower than expenses by approximately \$10,000.
- Water utility activities decreased the City's net position by approximately \$193,000 as expenses were greater than charges for services by that amount even though there was a 4% increase in water rates. This was primarily due to depreciation expense of approximately \$226,000.
- Marina activities negatively impacted the City's net position by approximately \$424,000 primarily due to depreciation expense of approximately \$658,000 and the Marina's contribution to the Marina / East Park debt obligations.
- Airport activities decreased the City's net position by approximately \$37,000. Expenses exceeded charges for services by almost \$246,000 as depreciation expense for the Airport was approximately \$285,000. This was partially offset by approximately \$209,000 in capital grants and contributions received from the terminal apron rehabilitation project.
- There was a net transfer in of approximately \$161,000 to business-type activities from the City's governmental activities, of which approximately \$123,000 was related to the Airport.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$2,015,000, a decrease of approximately \$217,000 in comparison with the prior year. A significant portion of the fund balances, approximately \$1,142,000, constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Unrestricted net position of the Enterprise Funds at the end of the year amounted to approximately \$7,379,000 and the net investment in capital assets was approximately \$23,238,000. The Sewage Disposal and Airport funds had an increase in net position for the year of approximately \$455,000 and \$77,000, respectively. The Electric Utility Fund, Water Utility Fund, and Marina Fund had a decrease of approximately \$242,000, \$135,000, and \$432,000, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, General Fund revenues were higher than budgetary estimates by approximately \$149,000 while expenditures were lower by approximately \$55,000. However, General Fund transfers to other City funds exceeded the budget by approximately \$73,000. This resulted in a decrease in the fund balance of approximately \$72,000 compared to a budgeted decrease of approximately \$203,000. There were no significant budget amendments made during the year.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2014, amounted to approximately \$55,304,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment and infrastructure including park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Wastewater Treatment Plant design and engineering
- W. Garfield Avenue, Lewis Street and Clinton Street infrastructure projects
- Phase I of the airport terminal apron rehabilitation
- State Street infrastructure project engineering
- Lake to Lake Trail design and engineering
- Electric and water utility system improvements
- Vehicle, equipment and software purchases

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 16,932,797	\$ 16,932,797	\$ 1,569,534	\$ 1,569,534	\$ 18,502,331	\$ 18,502,331
Land improvements	1,406,340	1,466,534	12,775,706	13,366,243	14,182,046	14,832,777
Infrastructure	2,792,353	2,286,953	-	-	2,792,353	2,286,953
Buildings and improvements	3,750,110	3,928,650	4,039,495	3,747,248	7,789,605	7,675,898
System improvements	-	-	9,862,462	10,075,263	9,862,462	10,075,263
Machinery and equipment	658,551	749,275	652,994	694,379	1,311,545	1,443,654
Vehicles	864,004	795,945	-	-	864,004	795,945
Total capital assets, net	\$ 26,404,155	\$ 26,160,154	\$ 28,900,191	\$ 29,452,667	\$ 55,304,346	\$ 55,612,821

Additional information on the City's capital assets can be found in the notes to the financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of approximately \$45,000 as well as bonds related to the construction of the marina with a balance of \$4,800,000. The City has pledged its full faith and credit towards the above obligations.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Installment purchase agreement	\$ -	\$ -	\$ 33,463	\$ 48,866	\$ 33,463	\$ 48,866
MDOT loan	-	-	11,805	23,170	11,805	23,170
Marina limited tax general obligation bonds	-	-	4,800,000	5,010,000	4,800,000	5,010,000
Compensated absences	270,898	275,744	-	-	270,898	275,744
Total	\$ 270,898	\$ 275,744	\$ 4,845,268	\$ 5,082,036	\$ 5,116,166	\$ 5,357,780

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$23,798,440, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in notes to the financial statement.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2014-15 fiscal year:

- The unemployment rate for the Northwest Lower Michigan region is currently 7.8%, a decrease from 9.6% from a year ago. This compares to the state's current average unemployment rate of 7.7% and the national average rate of 6.2%.
- The local, state and national economies continue to slowly improve. The City's taxable values have stabilized as foreclosures have decreased and new construction projects within the City have started to increase.
- The tax collection rate for the year was 96% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.
- For the 2014 tax year, the operating millage of 9.05 mills remained the same as the 2013 tax year to enable the same level of service to taxpayers provided by the General Fund. The infrastructure millage remained at 2.0593 mills as well. The refuse millage (PA 213) increased 0.1 mills to 1.0 mills to reflect the cost of the City's spring cleanup program and to pickup leaves and brush. Overall, the 2014 tax rates increased 0.1 mills to maintain current service levels.
- Sewer rates increased 24.5%, in line with a 2014 cost of service study, to build a sufficient cash balance in order to meet the debt obligations and covenants related to the approximately \$10 million project to upgrade the City's Wastewater Treatment Plant.
- Water rates increased 5%, as suggested by a 2014 cost of service study, to offset losses and to fund future capital improvements planned in the fund.
- Electric rates remained the same, per a 2014 cost of service study.
- Wage rates increased 2% for CWA and POLC union employees per their labor contracts with the City. The City's non-union employees also received a 2% rate increase effective July 2014.
- Rates were increased for the golf course, Mt. McSauba ski hill and day camp, marina and airport to offset additional operating costs in these areas.
- The employee fringe benefit fund rates were decreased 1.3% for all funds for 2014-15 due to the fund having a sufficient reserve to manage healthcare, pension and other employee benefit costs.
- The City offers its full-time employees a retirement pension through the Municipal Employees' Retirement System of Michigan (MERS). Based on the latest annual actuarial valuation report from MERS dated December 31, 2013, the City's plan is 75.4% funded, up from the 75.1% reported for the previous year.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 210 State Street, Charlevoix, Michigan 49720 or via email to citytreasurer@cityofcharlevoix.org or by visiting our Web site at www.cityofcharlevoix.org for additional supplemental budgetary information.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2014

	Primary Government			Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 2,137,994	\$ 4,674,479	\$ 6,812,473	\$ 617,483
Cash with fiscal agent	-	97,998	97,998	-
Investments	931,000	1,924,000	2,855,000	50,000
Receivables, net	306,533	1,212,513	1,519,046	37,813
Internal balances	(444,565)	444,565	-	-
Other assets	54,751	397,965	452,716	44
Restricted investments	-	225,000	225,000	-
Capital assets not being depreciated	16,932,797	1,569,534	18,502,331	923,071
Capital assets being depreciated, net	9,471,358	27,330,657	36,802,015	3,004,053
Total assets	29,389,868	37,876,711	67,266,579	4,632,464
Liabilities				
Accounts payable and accrued liabilities	224,944	925,465	1,150,409	10,004
Unearned revenue	8,720	14,481	23,201	500
Long-term liabilities:				
Due within one year	27,638	268,084	295,722	-
Due in more than one year	243,260	4,577,184	4,820,444	-
Total liabilities	504,562	5,785,214	6,289,776	10,504
Net position				
Net investment in capital assets	26,404,155	23,358,423	49,762,578	3,927,124
Restricted for:				
Perpetual care	401,525	-	401,525	-
Drug forfeiture	1,182	-	1,182	-
Street improvements	140,396	-	140,396	-
Capital projects	146,372	-	146,372	-
Downtown development	-	-	-	694,836
Unrestricted	1,791,676	8,733,074	10,524,750	-
Total net position	\$ 28,885,306	\$ 32,091,497	\$ 60,976,803	\$ 4,621,960

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2014

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 40,219	\$ -	\$ -	\$ -	\$ (40,219)
General government	693,278	186,970	-	-	(506,308)
Public safety	1,180,816	63,443	8,106	-	(1,109,267)
Public works	753,550	-	368,261	-	(385,289)
Health and welfare	356,386	335,059	-	-	(21,327)
Recreation and culture	980,043	294,666	63,521	-	(621,856)
Other expenditures	65,353	-	-	-	(65,353)
Total governmental activities	4,069,645	880,138	439,888	-	(2,749,619)
Business-type activities:					
Electric utility	5,448,357	5,563,470	13,868	-	128,981
Sewage disposal utility	1,179,008	1,168,489	428,447	-	417,928
Water utility	1,090,569	897,579	404	-	(192,586)
Marina	1,128,114	403,613	300,323	-	(424,178)
Airport	1,629,984	1,384,224	138	209,000	(36,622)
Total business-type activities	10,476,032	9,417,375	743,180	209,000	(106,477)
Total primary government	\$ 14,545,677	\$ 10,297,513	\$ 1,183,068	\$ 209,000	\$ (2,856,096)
Component unit					
Downtown Development Authority	\$ 645,111	\$ 49,009	\$ 37,522	\$ -	\$ (558,580)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net expense	\$ (2,749,619)	\$ (106,477)	\$ (2,856,096)	\$ (558,580)
General revenues:				
Property taxes	2,908,352	-	2,908,352	715,235
State shared revenues	234,545	-	234,545	-
Other revenue	17,207	-	17,207	-
Unrestricted investment earnings	7,002	-	7,002	-
Transfers - internal activities	(161,443)	161,443	-	-
Total general revenues and transfers	3,005,663	161,443	3,167,106	715,235
Change in net position	256,044	54,966	311,010	156,655
Net position, beginning of year	28,629,262	32,036,531	60,665,793	4,465,305
Net position, end of year	\$ 28,885,306	\$ 32,091,497	\$ 60,976,803	\$ 4,621,960

Concluded

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

FUND FINANCIAL STATEMENTS

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CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet

Governmental Funds

March 31, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 686,027	\$ 464,566	\$ 1,150,593
Investments	405,000	326,000	731,000
Accounts receivable, net	89,731	594	90,325
Taxes receivable	69,497	25,003	94,500
Interest receivable	2,138	949	3,087
Other assets	1,277	-	1,277
Due from other funds	37,583	5,080	42,663
Due from other governmental units	46,119	67,424	113,543
Total assets	\$ 1,337,372	\$ 889,616	\$ 2,226,988
Liabilities			
Accounts payable	\$ 87,762	\$ 10,504	\$ 98,266
Accrued liabilities	28,808	2,632	31,440
Due to other funds	59,642	5,080	64,722
Unearned revenue	1,812	1,165	2,977
Total liabilities	178,024	19,381	197,405
Deferred inflows of resources			
Unavailable revenue - long-term receivable	14,485	-	14,485
Fund balances			
Nonspendable	1,277	401,525	402,802
Restricted	1,182	286,768	287,950
Assigned	-	181,942	181,942
Unassigned	1,142,404	-	1,142,404
Total fund balances	1,144,863	870,235	2,015,098
Total liabilities, deferred inflows of resources and fund balances	\$ 1,337,372	\$ 889,616	\$ 2,226,988

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
March 31, 2014

Fund balances - total governmental funds	\$ 2,015,098
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. Capital assets, net	25,300,863
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities. Net position of governmental activities accounted for in internal service funds	2,099,170
Net position allocated to business-type activities from governmental activities internal service funds	(430,430)
The focus of governmental funds is on short-term financing; some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance. Unavailable revenue - long-term receivables	14,485
Certain liabilities, such as compensated absences, are not due and payable in the current period, and therefore are not reported in the funds. Compensated absences - sick leave	<u>(113,880)</u>
Net position of governmental activities	<u><u>\$ 28,885,306</u></u>

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended March 31, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 2,234,064	\$ 674,288	\$ 2,908,352
State revenue	235,852	367,510	603,362
Licenses and permits	4,645	-	4,645
Charges for services	719,163	8,025	727,188
Fines and forfeits	23,175	-	23,175
Interest	3,367	1,319	4,686
Rents and royalties	116,897	6,911	123,808
Other revenue	87,921	4,282	92,203
Total revenues	3,425,084	1,062,335	4,487,419
Expenditures			
Current:			
Legislative	40,473	-	40,473
General government	558,661	54,839	613,500
Public safety	1,178,270	-	1,178,270
Public works	224,918	986,555	1,211,473
Health and welfare	375,957	-	375,957
Recreation and culture	932,311	24,202	956,513
Other expenditures	65,353	-	65,353
Total expenditures	3,375,943	1,065,596	4,441,539
Revenues over (under) expenditures	49,141	(3,261)	45,880
Other financing sources (uses)			
Transfers in	2,500	608,298	610,798
Transfers out	(123,290)	(750,663)	(873,953)
Total other financing sources (uses)	(120,790)	(142,365)	(263,155)
Net change in fund balances	(71,649)	(145,626)	(217,275)
Fund balances, beginning of year	1,216,512	1,015,861	2,232,373
Fund balances, end of year	\$ 1,144,863	\$ 870,235	\$ 2,015,098

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended March 31, 2014

Net change in fund balances - total governmental funds \$ (217,275)

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 are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	644,852
Depreciation expense	(448,985)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Long-term receivables	(3,621)
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Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from governmental activities accounted for in internal service funds	431,286
Change in net position from governmental activities accounted for in internal service funds charged to business-type activities.	(160,980)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Net decrease in compensated absences - sick leave	<u>10,767</u>
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Change in net position of governmental activities	<u><u>\$ 256,044</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 2,201,500	\$ 2,201,500	\$ 2,201,537	\$ 37
Payments in lieu of taxes	3,400	3,400	3,536	136
Interest and penalties on taxes	14,000	14,000	10,611	(3,389)
Tax collection fees	16,000	16,000	18,380	2,380
Total taxes	2,234,900	2,234,900	2,234,064	(836)
State revenue	202,600	202,600	235,852	33,252
Licenses and permits	3,900	3,900	4,645	745
Charges for services:				
Fire runs	44,200	44,200	63,443	19,243
Ambulance runs	260,000	260,000	244,971	(15,029)
Ambulance contracts	72,400	72,400	90,088	17,688
Cemetery	38,000	38,000	43,617	5,617
Golf course	130,500	130,500	125,906	(4,594)
Summer sports	5,900	5,900	7,312	1,412
Day camp	43,000	43,000	60,049	17,049
Winter sports	50,000	50,000	52,802	2,802
Basketball	400	400	-	(400)
Skate park	2,000	2,000	1,494	(506)
Parking	22,100	22,100	23,464	1,364
Other	5,000	5,000	6,017	1,017
Total charges for services	673,500	673,500	719,163	45,663
Fines and forfeitures	25,500	25,500	23,175	(2,325)
Interest	10,000	10,000	3,367	(6,633)
Rents and royalties:				
City hall	94,600	94,600	95,800	1,200
Boat launch/harbor building	22,300	22,300	21,097	(1,203)
Total rents and royalties	116,900	116,900	116,897	(3)
Other revenue	8,400	8,400	87,921	79,521
Total revenues	3,275,700	3,275,700	3,425,084	149,384

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Legislative:				
City council	\$ 47,600	\$ 47,600	\$ 40,473	\$ (7,127)
General government:				
Mayor	7,800	7,595	7,882	287
City manager	91,200	115,717	110,234	(5,483)
Elections	19,400	23,920	18,125	(5,795)
Assessor	57,200	57,183	55,333	(1,850)
City attorney	67,300	76,951	74,350	(2,601)
City clerk	39,800	46,254	51,545	5,291
City treasurer	66,100	67,200	62,978	(4,222)
City hall and grounds	105,200	106,178	103,815	(2,363)
Cemetery	84,800	73,800	74,399	599
Total general government	538,800	574,798	558,661	(16,137)
Public safety:				
Police department	780,900	780,900	776,087	(4,813)
Parking law enforcement	8,400	8,400	6,207	(2,193)
Fire department	332,300	332,300	317,081	(15,219)
Planning department	67,600	67,600	78,895	11,295
Total public safety	1,189,200	1,189,200	1,178,270	(10,930)
Public works:				
Highways and streets	11,400	11,400	236	(11,164)
Leaf pick up	126,100	126,100	131,431	5,331
Waste collection	38,600	38,600	41,894	3,294
Brush pickup	61,500	61,500	51,357	(10,143)
Total public works	237,600	237,600	224,918	(12,682)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended March 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Health and welfare:				
Ambulance	\$ 392,500	\$ 407,865	\$ 375,957	\$ (31,908)
Recreation and culture:				
Parks	418,800	418,800	417,083	(1,717)
Recreation administration	36,700	36,700	35,897	(803)
City beaches	33,700	33,700	20,876	(12,824)
Ball fields	14,300	14,300	15,407	1,107
Day camp	57,000	57,000	57,721	721
Ice rink	6,000	6,000	6,221	221
Mt. McSauba ski hill	109,200	109,200	134,328	25,128
Basketball and volleyball	500	500	2,048	1,548
Golf course	205,400	205,400	206,479	1,079
Boat launch	19,400	19,400	19,058	(342)
Skate park	5,100	5,100	3,953	(1,147)
Community promotion	11,200	11,200	13,240	2,040
Total recreation and culture	917,300	917,300	932,311	15,011
Other expenditures	56,200	56,200	65,353	9,153
Total expenditures	3,379,200	3,430,563	3,375,943	(54,620)
Revenues over (under) expenditures	(103,500)	(154,863)	49,141	204,004
Other financing sources (uses)				
Transfers in	2,500	2,500	2,500	-
Transfers out	(45,000)	(50,200)	(123,290)	73,090
Total other financing sources (uses)	(42,500)	(47,700)	(120,790)	73,090
Net change in fund balance	(146,000)	(202,563)	(71,649)	130,914
Fund balance, beginning of year	1,216,512	1,216,512	1,216,512	-
Fund balance, end of year	\$ 1,070,512	\$ 1,013,949	\$ 1,144,863	\$ 130,914

Concluded

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

Proprietary Funds

March 31, 2014

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,117,835	\$ 968,491	\$ 34,944	\$ 31,917
Investments	1,365,000	40,000	44,000	75,000
Cash at fiscal agent	-	-	-	97,998
Accounts receivable, net	886,014	118,904	79,219	233
Interest receivable	4,174	39	41	300
Due from other funds	1,600	6,168	2,540	7,967
Due from other governmental units	-	80,462	-	-
Other assets	311	425	267	29,276
Inventory	295,935	-	55,091	-
Total current assets	5,670,869	1,214,489	216,102	242,691
Noncurrent assets:				
Restricted investments for replacement	75,000	75,000	75,000	-
Advance to other funds	856,500	-	-	-
Capital assets, not being depreciated	187,613	345,125	13,730	-
Capital assets, net of accumulated depreciation	4,473,986	4,263,121	4,456,571	9,391,903
Total noncurrent assets	5,593,099	4,683,246	4,545,301	9,391,903
Total assets	11,263,968	5,897,735	4,761,403	9,634,594
Liabilities				
Current liabilities:				
Accounts payable	343,862	284,014	20,155	4,345
Accrued liabilities	14,010	5,820	9,116	98,623
Customer deposits	70,221	-	-	48,253
Current portion of bonds and notes payable	-	-	-	240,000
Current portion of compensated absences	-	-	-	-
Due to other funds	-	-	2,540	-
Unearned revenue	-	-	-	-
Total current liabilities	428,093	289,834	31,811	391,221
Noncurrent liabilities:				
Advance from other funds	-	-	-	696,500
Bonds payable, net of current portion	-	-	-	4,560,000
Notes payable, net of current portion	-	-	-	-
Compensated absences, net of current portion	-	-	-	-
Total noncurrent liabilities	-	-	-	5,256,500
Total liabilities	428,093	289,834	31,811	5,647,721
Net position				
Net investment in capital assets	4,661,599	4,608,246	4,470,301	3,895,403
Unrestricted (deficit)	6,174,276	999,655	259,291	91,470
Total net position	\$ 10,835,875	\$ 5,607,901	\$ 4,729,592	\$ 3,986,873

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

Airport	Total	Internal Service Funds
\$ 200	\$ 4,153,387	\$ 1,508,493
-	1,524,000	600,000
-	97,998	-
40,868	1,125,238	4,244
-	4,554	3,093
-	18,275	53,474
-	80,462	-
9	30,288	53,474
16,651	367,677	-
<u>57,728</u>	<u>7,401,879</u>	<u>2,222,778</u>
-	225,000	-
-	856,500	-
960,066	1,506,534	83,653
<u>4,687,519</u>	<u>27,273,100</u>	<u>1,140,196</u>
<u>5,647,585</u>	<u>29,861,134</u>	<u>1,223,849</u>
<u>5,705,313</u>	<u>37,263,013</u>	<u>3,446,627</u>
21,542	673,918	85,367
5,504	133,073	9,871
-	118,474	-
28,084	268,084	-
-	-	12,491
1,600	4,140	45,550
14,481	14,481	5,743
<u>71,211</u>	<u>1,212,170</u>	<u>159,022</u>
160,000	856,500	-
-	4,560,000	-
17,184	17,184	-
-	-	144,527
<u>177,184</u>	<u>5,433,684</u>	<u>144,527</u>
<u>248,395</u>	<u>6,645,854</u>	<u>303,549</u>
5,602,317	23,237,866	1,223,849
(145,399)	7,379,293	1,919,229
<u>\$ 5,456,918</u>	<u>\$ 30,617,159</u>	<u>\$ 3,143,078</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-Type Activities
March 31, 2014

Net position - total enterprise funds \$ 30,617,159

Amounts reported for business-type activities in the statement of net position are different because:

Internal service funds are used by management to charge the costs of certain activities to other funds. A portion of the net position of the internal service funds is allocated to the business-type activities and reported in the statement of net position.

Net position of business-type activities accounted for in business-type activity internal service funds	1,043,908
Net position allocated to business-type activities from governmental activities internal service funds	430,430

Net position of business-type activities \$ 32,091,497

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position

Proprietary Funds

For the Year Ended March 31, 2014

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,563,470	\$ 1,168,489	\$ 897,579	\$ 403,613
Operating expenses				
Purchased power	3,242,088	-	-	-
Fuel purchases	-	-	-	-
Personnel services	1,078,767	536,617	584,886	135,582
Contractual services	221,898	97,863	57,318	48,336
Insurance	16,733	11,794	4,416	3,670
Building rental	49,200	22,700	22,700	-
Equipment rental	96,515	75,323	52,910	263
Supplies	100,507	69,027	63,713	3,371
Utilities	48,124	151,219	59,382	62,078
Repairs and maintenance	51,100	27,834	48,908	6,773
Depreciation	525,697	208,969	226,257	657,514
Amortization	-	-	-	2,440
Miscellaneous	82,304	14,872	7,044	8,356
Total operating expenses	5,512,933	1,216,218	1,127,534	928,383
Operating income (loss)	50,537	(47,729)	(229,955)	(524,770)
Nonoperating revenues (expenses)				
Interest revenue	13,868	374	404	323
Gain on sale of capital assets	-	-	-	-
Other revenue	-	-	-	300,000
Federal revenue	-	-	-	-
State revenue	-	425,775	-	-
Interest expense	-	-	-	(203,920)
Total nonoperating revenues (expenses)	13,868	426,149	404	96,403
Income (loss) before transfers	64,405	378,420	(229,551)	(428,367)
Transfers				
Transfers in	8,488	111,704	94,661	-
Transfers out	(315,100)	(35,100)	-	(3,500)
Total transfers	(306,612)	76,604	94,661	(3,500)
Change in net position	(242,207)	455,024	(134,890)	(431,867)
Net position, beginning of year	11,078,082	5,152,877	4,864,482	4,418,740
Net position, end of year	\$ 10,835,875	\$ 5,607,901	\$ 4,729,592	\$ 3,986,873

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

Airport	Total	Internal Service Funds
\$ 1,384,224	\$ 9,417,375	\$ 2,983,790
-	3,242,088	-
1,002,282	1,002,282	-
254,750	2,590,602	2,179,557
10,063	435,478	28,446
9,633	46,246	-
-	94,600	-
39	225,050	-
2,843	239,461	126,908
31,229	352,032	10,557
13,479	148,094	128,400
285,000	1,903,437	197,793
-	2,440	-
25,035	137,611	1,914
<u>1,634,353</u>	<u>10,419,421</u>	<u>2,673,575</u>
<u>(250,129)</u>	<u>(1,002,046)</u>	<u>310,215</u>
-	14,969	4,614
-	-	7,616
-	300,000	1,018
209,000	209,000	-
138	425,913	-
(5,262)	(209,182)	-
<u>203,876</u>	<u>740,700</u>	<u>13,248</u>
<u>(46,253)</u>	<u>(261,346)</u>	<u>323,463</u>
123,290	338,143	381,500
-	(353,700)	(102,788)
<u>123,290</u>	<u>(15,557)</u>	<u>278,712</u>
77,037	(276,903)	602,175
<u>5,379,881</u>	<u>30,894,062</u>	<u>2,540,903</u>
<u>\$ 5,456,918</u>	<u>\$ 30,617,159</u>	<u>\$ 3,143,078</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Change in Net Position of Enterprise Funds
to Change in Net Position of Business-Type Activities
For the Year Ended March 31, 2014

Change in net position - total enterprise funds \$ (276,903)

Amounts reported for *business-type activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the operating income (loss) of the internal service fund is allocated to the business-type activities and reported in the statement of activities.

Change in net position of internal service funds charged to business-type activities	170,889
Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities	<u>160,980</u>

Change in net position of business-type activities	<u><u>\$ 54,966</u></u>
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The accompanying notes are an integral part of these financial statements.

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2014

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,550,167	\$ 1,164,037	\$ 895,064	\$ 399,074
Cash received from interfund services	-	-	-	-
Cash payments to employees	(1,075,322)	(535,850)	(580,973)	(139,669)
Cash payments to suppliers for goods and services	(3,882,598)	(238,560)	(317,722)	(133,692)
Net cash provided by (used in) operating activities	592,247	389,627	(3,631)	125,713
Cash flows from noncapital financing activities				
Other receipts	-	-	-	300,000
Federal receipts	-	-	-	-
State receipts	-	389,080	-	-
Repayment on advance to other funds	-	-	-	(3,500)
Transfers in	8,488	111,704	94,661	-
Transfers out	(315,100)	(35,100)	-	(3,500)
Net cash provided by (used in) noncapital financing activities	(306,612)	465,684	94,661	293,000
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(384,436)	(598,120)	(141,132)	(116)
Bond and loan principal payments	-	-	-	(210,000)
Bond and loan interest payments	-	-	-	(203,920)
Net cash used in capital and related financing activities	(384,436)	(598,120)	(141,132)	(414,036)
Cash flows from investing activities				
Proceeds from matured investments	-	150,256	798	-
Purchase of investments	(49,812)	-	-	-
Receipt of amounts from advance to other funds	3,500	-	46,459	-
Interest received	14,039	343	371	38
Net cash provided by (used in) investing activities	(32,273)	150,599	47,628	38
Net increase (decrease) in cash and cash equivalents	(131,074)	407,790	(2,474)	4,715
Cash and cash equivalents, beginning of year	3,248,909	560,701	37,418	125,200
Cash and cash equivalents, including cash at fiscal agent, end of year	3,117,835	968,491	34,944	129,915
Cash at fiscal agent, end of year	-	-	-	(97,998)
Cash and cash equivalents, end of year	\$ 3,117,835	\$ 968,491	\$ 34,944	\$ 31,917

Airport	Total	Internal Service Funds
\$ 1,378,232	\$ 9,386,574	\$ -
-	-	2,981,416
(254,750)	(2,586,564)	(2,177,308)
(1,188,314)	(5,760,886)	(401,093)
(64,832)	1,039,124	403,015
-	300,000	1,018
209,000	209,000	-
138	389,218	-
-	(3,500)	(46,459)
123,290	338,143	381,500
-	(353,700)	(102,788)
332,428	879,161	233,271
-	-	7,616
(235,566)	(1,359,370)	(237,518)
(26,768)	(236,768)	-
(5,262)	(209,182)	-
(267,596)	(1,805,320)	(229,902)
-	151,054	100,000
-	(49,812)	(200,000)
-	49,959	-
-	14,791	3,220
-	165,992	(96,780)
-	278,957	309,604
200	3,972,428	1,198,889
200	4,251,385	1,508,493
-	(97,998)	-
\$ 200	\$ 4,153,387	\$ 1,508,493

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended March 31, 2014

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 50,537	\$ (47,729)	\$ (229,955)	\$ (524,770)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	525,697	208,969	226,257	657,514
Changes in assets and liabilities:				
Accounts receivable	(7,453)	(4,452)	(2,515)	(233)
Due from other funds	(1,600)	-	-	-
Other assets	(59)	(173)	(15)	-
Inventory	35,374	-	(9,435)	2,440
Accounts payable	(9,444)	232,245	8,119	(845)
Accrued liabilities	3,445	767	3,913	(4,087)
Due to other funds	-	-	-	-
Customer deposits	(4,250)	-	-	(4,306)
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 592,247</u>	<u>\$ 389,627</u>	<u>\$ (3,631)</u>	<u>\$ 125,713</u>

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

Airport	Total	Internal Service Funds
---------	-------	------------------------

\$ (250,129) \$ (1,002,046) \$ 310,215

285,000 1,903,437 197,793

(2,868) (17,521) (2,856)

- (1,600) -

(9) (256) (6,982)

10,474 38,853 -

(35,329) 194,746 (97,886)

991 5,029 (3,672)

(69,838) (69,838) -

- (8,556) -

- - 5,921

(3,124) (3,124) 482

\$ (64,832) \$ 1,039,124 \$ 403,015

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2014

Assets	
Cash	<u>\$ 81,131</u>
Liabilities	
Undistributed receipts	<u>\$ 81,131</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The *City of Charlevoix, Michigan* (the “City”) was incorporated in 1905 and adopted a Home Rule Charter in April 1978 under Act 279, P.A. 1909 as amended (Home Rule City Act). The City is directed by a six-member City Council and a Mayor elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: general government (planning & zoning, public improvement and general administrative services), public safety (police and fire), public works (highways and streets, brush pick-up, sanitation, electricity), health and welfare and recreation-culture.

Downtown Development Authority - The Downtown Development Authority (“DDA”) is responsible for certain projects and activities whose purpose is to revitalize the downtown business district. The members of the DDA’s governing Board are appointed by the Mayor of the City and therefore the DDA is reported as a discretely presented component unit. The City also has the ability to significantly influence the operations of the DDA.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, 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 the legally separate component unit for which the primary government is financially accountable.

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. 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 revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The *General Fund* is the City's primary operating fund and only major governmental fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The City reports the following major proprietary funds:

The *Electric Utility Fund* accounts for the activities of the City's electrical utility system.

The *Sewage Disposal Utility Fund* accounts for the activities of the City's sewage disposal and treatment system.

The *Water Utility Fund* accounts for the activities of the City's water distribution and treatment system.

The *Marina Fund* accounts for the activities of the City's marina.

The *Airport Fund* accounts for the activities of the Charlevoix Airport including revenue sources that are legally restricted to expenses for the Airport.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *Permanent Fund* accounts for the assets that are permanently restricted in the City's Cemetery Perpetual Care Fund. The principal portion of these funds must stay intact, but the interest earnings are used to provide for maintenance of the City's cemetery.

Internal Service Funds account for fleet and equipment management, employee fringe benefits, and Department of Public Works services provided to other departments or funds of the City, or to other governments, on a cost reimbursement basis.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewage disposal, and electric utility, cost of building rent and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric utility, sewage disposal utility, water utility, marina and airport enterprise funds and of the City's internal service funds are charges to customers or other funds for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position includes assets that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and equity

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of March 31, 2014, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$30,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

Amounts due from other governments include amounts due from the State for state shared revenue, gas and weight tax and trunkline maintenance and from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are reported as "unearned."

Inventories

Inventory held by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost of such inventories has been treated as an expenditure at the time of purchase.

Restricted investments

Certain resources of the City's enterprise funds have been set aside to fund capital asset replacements in accordance with the City's Charter.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	20 - 50
Infrastructure	30 - 50
Buildings and improvements	40
System improvements	5 - 20
Machinery and equipment	5 - 10
Vehicles	5 - 20

The City reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

Deferred outflows of resources

In addition to assets, the statements of net position or balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until a future period. The City does not have any deferred outflows of resources at March 31, 2014.

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave up to 40 days for employees within the Communications Workers of America union and the Fraternal Order of Police union and fourteen days for the non-union employees are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the government-wide financial statement; otherwise, total accumulated and unused vacation time is reported as a liability in the employees fringe benefit internal service fund.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Deferred inflows of resources

In addition to liabilities, the statements of net position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until a future period. The governmental funds report unavailable revenues, which arises only under modified accrual basis of accounting, from certain long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Treasurer or his designee. Unassigned fund balance is the residual classification for the General Fund.

The City Council has adopted a minimum fund balance policy in which the total unassigned fund balance of the General Fund will be equal to at least 23 percent of the General Fund expenditures. If the General Fund's fund balance falls below 23 percent of total General Fund expenditures, the City Council will develop a plan to replenish the shortages at least by 1% each year as detailed in the policy.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's procedure to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

The City is reporting deficit unrestricted net position of \$145,399 in the Airport enterprise fund; however, total net position is not in a deficit. Management is looking at ways to increase revenues and decrease expenses in this fund so that they can eliminate the related deficit.

Interfund transactions

During the course of normal operations, the City has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal service funds are used to record charges for services to all City funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures/expenses.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. Budgetary Information

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

On or before the third Monday in January of each year, the City Manager must present the proposed budget to City Council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than the third Monday in February.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by City Council is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require City Council resolution.

3. Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the City were adopted on the function level basis for all governmental funds, which is the legal level of control. During the year ended March 31, 2014 the City had expenditures in budgetary funds which were in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Budget Variance
General Fund			
Recreation and culture	\$ 917,300	\$ 932,311	\$ 15,011
Other expenditures	56,200	65,353	9,153
Transfers out	50,200	123,290	73,090

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

4. Deposits and Investments

Following is a reconciliation of deposit and investment balances as of March 31, 2014:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 6,812,473	\$ 617,483	\$ 7,429,956
Cash with fiscal agent	97,998	-	97,998
Investments	2,855,000	50,000	2,905,000
Restricted investments	225,000	-	225,000
	<u>\$ 9,990,471</u>	<u>\$ 667,483</u>	
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			81,131
Total			<u>\$ 10,739,085</u>
Deposits and investments			
Bank deposits (checking and savings accounts)			\$ 7,510,079
Certificate of Deposits:			
Maturing in 1 year			2,880,000
Maturing in 2 to 5 years			250,000
Cash with fiscal agent			97,998
Petty cash			1,008
Total			<u>\$ 10,739,085</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, approximately \$890,000 of the City's bank balance of approximately \$10,730,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investment credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

5. Receivables

Receivables are comprised of the following as of March 31, 2014:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable, net	\$ 94,569	\$ 1,125,238	\$ 37,813
Taxes receivable	94,500	-	-
Interest receivable	3,921	6,813	-
Due from other governmental units	113,543	80,462	-
	<u>\$ 306,533</u>	<u>\$ 1,212,513</u>	<u>\$ 37,813</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

6. Capital Assets

Primary Government

Capital assets activity for the primary government for the year ended March 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 16,932,797	\$ -	\$ -	\$ -	\$ 16,932,797
Capital assets being depreciated:					
Land improvements	3,201,723	20,434	-	-	3,222,157
Infrastructure	2,578,334	609,099	-	-	3,187,433
Buildings and improvements	7,425,504	-	-	-	7,425,504
Machinery and equipment	2,217,466	16,842	(201,224)	-	2,033,084
Vehicles	2,712,757	235,995	(125,191)	-	2,823,561
	<u>18,135,784</u>	<u>882,370</u>	<u>(326,415)</u>	<u>-</u>	<u>18,691,739</u>
Less accumulated depreciation for:					
Land improvements	(1,735,189)	(80,628)	-	-	(1,815,817)
Infrastructure	(291,381)	(103,699)	-	-	(395,080)
Buildings and improvements	(3,496,854)	(178,540)	-	-	(3,675,394)
Machinery and equipment	(1,468,191)	(107,566)	201,224	-	(1,374,533)
Vehicles	(1,916,812)	(167,936)	125,191	-	(1,959,557)
	<u>(8,908,427)</u>	<u>(638,369)</u>	<u>326,415</u>	<u>-</u>	<u>(9,220,381)</u>
Total capital assets being depreciated, net	<u>9,227,357</u>	<u>244,001</u>	<u>-</u>	<u>-</u>	<u>9,471,358</u>
Governmental activities capital assets, net	<u>\$ 26,160,154</u>	<u>\$ 244,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,404,155</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 1,569,534	\$ -	\$ -	\$ -	\$ 1,569,534
Capital assets being depreciated:					
Land improvements	17,836,602	247,996	-	-	18,084,598
Buildings and improvements	9,719,774	473,084	(40,738)	-	10,152,120
System improvements	24,723,913	536,077	(1,000)	-	25,258,990
Machinery and equipment	2,683,174	102,213	(169,950)	-	2,615,437
	<u>54,963,463</u>	<u>1,359,370</u>	<u>(211,688)</u>	<u>-</u>	<u>56,111,145</u>
Less accumulated depreciation for:					
Land improvements	(4,470,359)	(838,533)	-	-	(5,308,892)
Buildings and improvements	(5,972,526)	(180,837)	40,738	-	(6,112,625)
System improvements	(14,648,650)	(748,878)	1,000	-	(15,396,528)
Machinery and equipment	(1,988,795)	(143,598)	169,950	-	(1,962,443)
	<u>(27,080,330)</u>	<u>(1,911,846)</u>	<u>211,688</u>	<u>-</u>	<u>(28,780,488)</u>
Total capital assets being depreciated, net	<u>27,883,133</u>	<u>(552,476)</u>	<u>-</u>	<u>-</u>	<u>27,330,657</u>
Business-type activities capital assets, net	<u>\$ 29,452,667</u>	<u>\$ (552,476)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,900,191</u>

Depreciation expense for the year ended March 31, 2014 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 145,130
Public safety	71,755
Public works	139,047
Recreation and culture	93,053
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>189,384</u>
	<u>\$ 638,369</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Depreciation of business-type activities by function	
Electric utility	\$ 525,697
Sewage disposal utility	208,969
Water utility	226,257
Marina	657,514
Airport	285,000
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	<u>8,409</u>
	<u><u>\$ 1,911,846</u></u>

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated:					
Land Improvements	2,352,215	16,925	-	-	2,369,140
Buildings and improvements	3,960,317	-	-	-	3,960,317
Machinery and equipment	72,119	-	(1,414)	-	70,705
	<u>6,384,651</u>	<u>16,925</u>	<u>(1,414)</u>	<u>-</u>	<u>6,400,162</u>
Less accumulated depreciation for:					
Land improvements	(1,268,245)	(85,575)	-	-	(1,353,820)
Buildings and improvements	(1,885,843)	(102,474)	-	-	(1,988,317)
Machinery and equipment	(52,059)	(3,327)	1,414	-	(53,972)
	<u>(3,206,147)</u>	<u>(191,376)</u>	<u>1,414</u>	<u>-</u>	<u>(3,396,109)</u>
Total capital assets being depreciated, net	<u>3,178,504</u>	<u>(174,451)</u>	<u>-</u>	<u>-</u>	<u>3,004,053</u>
Component unit capital assets, net	<u>\$ 4,101,575</u>	<u>\$ (174,451)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,927,124</u>

Depreciation expense for the component unit, included in the statement of activities, was \$191,376 for fiscal 2014.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following as of March 31, 2014:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 183,633	\$ 673,918	\$ 10,004
Accrued liabilities	41,311	133,073	-
Customer deposits	-	118,474	-
	<u>\$ 224,944</u>	<u>\$ 925,465</u>	<u>\$ 10,004</u>

8. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of March 31, 2014, was as follows:

Due to and from other funds

	Due to Other Funds	Due From Other Funds
General fund	\$ 59,642	\$ 37,583
Nonmajor governmental funds	5,080	5,080
Electric utility fund	-	1,600
Sewage disposal utility fund	-	6,168
Water utility fund	2,540	2,540
Marina fund	-	7,967
Airport fund	1,600	-
Internal service funds	45,550	53,474
	<u>\$ 114,412</u>	<u>\$ 114,412</u>

The outstanding balances between funds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to and from other funds

	Advance to Other Funds	Advance From Other Funds
Electric utility fund	\$ 856,500	\$ -
Marina fund	-	696,500
Airport fund	-	160,000
	<u>\$ 856,500</u>	<u>\$ 856,500</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

During the year ended March 31, 2009, the Electric Utility Enterprise Fund advanced a total of \$700,000 to the Marina Enterprise Fund to cover planned additional costs on the Marina and park area reconstruction project that was substantially complete in July 2008. This advance is to be repaid over eight years with interest charged at 0.5% and paid annually. During fiscal year ended March 31, 2012, the Electric Utility Enterprise Fund advanced a total of \$160,000 to the Airport Enterprise Fund to cover initial costs of airport operations and for cash flow purposes. Interest is charged at 0.5% on this advance and is due annually beginning in fiscal year 2012/13 and principal will be repaid over six years beginning in fiscal year 2014/15.

For the year ended March 31, 2014, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 2,500	\$ 123,290
Nonmajor governmental funds	608,298	750,663
Electric utility fund	8,488	315,100
Sewage disposal utility fund	111,704	35,100
Water utility fund	94,661	-
Marina fund	-	3,500
Airport fund	123,290	-
Internal service funds	381,500	102,788
	<u>\$ 1,330,441</u>	<u>\$ 1,330,441</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

9. Long-Term Debt

General obligation bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued by the Marina, a proprietary fund.

Installment purchases. The primary government's Public Act 99 installment purchase agreement is also a general obligation of the City. The original amount of the primary government's installment purchase agreement was \$180,000.

In addition, the primary government has a loan with the Michigan Aeronautics Commission of the Michigan Department of Transportation ("MDOT") in accordance with Act 107, Public Acts of 1969, as amended. The original amount of the loan was \$100,000.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

General obligation bonds, installment purchase agreements, and loans are direct obligations and pledge the full faith and credit of the City. The bonds are issued as 20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds, installment purchase agreements, and loans currently outstanding are as follows:

Purpose	Matures	Interest Rates	Amount
Business-type activities			
Marina - limited tax general obligation bonds	January, 2027	4.0% - 4.2%	\$ 4,800,000
Airport - installment purchase	September, 2016	5.6%	33,463
Airport - loan (MDOT)	September, 2014	3.9%	11,805
			<u>\$ 4,845,268</u>

Long-term debt activity for the year ended March 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	One Year
Governmental activities					
Compensated absences - sick leave	\$ 124,647	\$ 37,527	\$ (48,294)	\$ 113,880	\$ 15,147
Compensated absences - vacation	151,097	152,913	(146,992)	157,018	12,491
Total governmental activities	<u>275,744</u>	<u>190,440</u>	<u>(195,286)</u>	<u>270,898</u>	<u>27,638</u>
Business-type activities					
General obligation bonds	5,010,000	-	(210,000)	4,800,000	240,000
Installment purchase agreement	48,866	-	(15,403)	33,463	16,279
Loan	23,170	-	(11,365)	11,805	11,805
Total business-type activities	<u>5,082,036</u>	<u>-</u>	<u>(236,768)</u>	<u>4,845,268</u>	<u>268,084</u>
Total primary government	<u>\$ 5,357,780</u>	<u>\$ 190,440</u>	<u>\$ (432,054)</u>	<u>\$ 5,116,166</u>	<u>\$ 295,722</u>
Component unit - DDA					
General obligation bonds	\$ 285,000	\$ -	\$ (285,000)	\$ -	\$ -

Compensated absences related to accrued sick and vacation in governmental activities are generally liquidated by the Employee Fringe Benefits Internal Service Fund.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for general obligation bonds, and the installment purchase agreement and loan are as follows:

Year Ending March 31,	Business-Type Activities	
	Principal	Interest
2015	\$ 268,084	\$ 193,538
2016	272,184	182,262
2017	275,000	170,695
2018	295,000	159,295
2019	315,000	147,095
2020-2024	1,950,000	518,308
2025-2027	1,470,000	93,753
	<u>\$ 4,845,268</u>	<u>\$ 1,464,946</u>

10. Operating Lease and Commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note for the construction of a storage building, which approximates \$43,000 as of March 31, 2014. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2015	\$ 24,898
2016	25,862
2017	26,861
2018	27,894
2019	28,963
2020-2024	168,471
2025-2028	178,237
	<u>\$ 481,186</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

11. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended March 31, 2014, the City carried insurance through various commercial carriers, including the Michigan Municipal League and Michigan Township Participating Plan, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through the first business day of September; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2013 levy was assessed and equalized at \$237,984,404 (not including properties subject to Industrial Facilities Tax exemption), representing 50 percent of estimated current market value. The City's general operating tax rate for fiscal year 2013-14 was 9.0500 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional 0.9000 mills levied for refuse.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Charlevoix, which are within the DDA district. The DDA also has an operating levy of 1.3631 mills. Property taxes are recognized in the fiscal year in which they are levied.

13. Defined Benefit Pension Plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan ("MERS"), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America ("CWA") is 16.12% of annual covered payroll, the Police and Fire ("POLC") rate is 7.60% and the non-union rate is 17.80% of covered payroll. Communication Workers of America and Police and Fire affiliated City employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

For the year ended March 31, 2014, the City’s annual pension cost of \$274,075 for MERS represents the City’s required contributions. The City employees contributed \$55,257, which was equal to their required contribution. The required contribution is determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 4.5% to 17.5% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year (1% for calendar year 2013 - 2016), compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the last actuarial valuation, was 25 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/12	\$ 381,096	100%	\$ -
3/31/13	281,799	100%	-
3/31/14	274,075	100%	-

Funded Status and Funding Progress. As of December 31, 2013, the most recent valuation date, the Plan was 75% funded. The actuarial accrued liability for benefits was \$11,830,180 and the actuarial value of assets was \$8,915,155, resulting in an unfunded actuarial accrued liability of \$2,915,025, which means the plan is under funded. The covered payroll (annual payroll for active employees covered by the Plan) was \$2,631,200 and the ratio for the UAAL to the covered payroll was 111%.

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

14. Defined Contribution Plan

The City provided pension benefits to its City Manager through a defined contribution plan "City of Charlevoix City Manager Money Purchase Plan." In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.60% of the City Manager’s gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. The City contributed \$18,729 to the Plan during the year ended March 31, 2014. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2014.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

15. Entitlement Commitment

During 1979 and 1982, the Michigan Public Power Agency (“MPPA”), of which the City is a member, acquired an ownership interest in the Consumer Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets.

The City has entered into contracts with MPPA for the City’s electric entitlement share of the Campbell No. 3 and Belle River Unit generating capacities of 2074(kw) and 3869(kw), respectively.

The Power Sales Contract requires payments on a “take-and-pay” basis for the City’s entitlement share of power and energy from the Project as is available under the Project Agreements. In the event payment is not required for any month under the City’s Power Sales Contract, the City is required to make payment for such month under this Project Support Contract on a “take-or-pay” basis. The payment under the Project Support Contract would be the amount the City would have been required to pay under its Power Sales Contract for such month if any power and energy from the Project that is available under the Project Agreements had been made available to the City. If a participant of the MPPA defaults in the performance of its obligations under its Power Sales Contract or Project Support Contract, and the MPPA is unable to sell such participant’s entitlement share, the remaining participants not in default are obligated to assume pro rata shares of such entitlement share up to 25 percent of their original entitlement shares.

The City’s share of MPPA annual debt service requirements, used as a measure of minimum annual payments are as follows:

Year Ended December 31,	Campbell No. 3		Belle River	
	Principal	Interest	Principal	Interest
2015	\$ 158,100	\$ 7,905	\$ 369,983	\$ 83,966
2016	-	-	389,070	64,557
2017	-	-	409,530	44,131
2018	-	-	431,063	22,631
Total	\$ 158,100	\$ 7,905	\$ 1,599,646	\$ 215,285

Year Ended December 31,	Combustion Turbine No. 1		Campbell Project Bank	
	Principal	Interest	Principal	Interest
2015	\$ 60,180	\$ 53,265	\$ -	\$ 28,361
2016	63,012	50,256	-	28,361
2017	66,316	47,106	193,936	28,361
2018	69,620	43,790	199,470	22,779
2019	73,160	40,309	204,213	18,181
2020-2024	424,092	142,898	640,833	25,904
2025-2028	308,924	31,399	-	-
Total	\$ 1,065,304	\$ 409,023	\$ 1,238,452	\$ 151,947

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Year Ended December 31,	AFEC Project		Total	
	Principal	Interest	Principal	Interest
2015	\$ 17,442	\$ 49,862	\$ 605,705	\$ 223,359
2016	17,927	49,412	470,009	192,586
2017	18,734	48,695	688,516	168,293
2018	19,380	47,945	719,533	137,145
2019	20,349	47,073	297,722	105,563
2020-2024	116,605	220,115	1,181,530	388,917
2025-2029	147,290	189,449	456,214	220,848
2030-2034	187,987	148,742	187,987	148,742
2035-2039	239,829	96,819	239,829	96,819
2040-2043	238,698	30,564	238,698	30,564
Total	\$ 1,024,241	\$ 928,676	\$ 5,085,743	\$ 1,712,836

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The City's share of this trust fund was approximately \$365,000 at March 31, 2014.

16. Commitments

The City will be undertaking a major project to upgrade its wastewater treatment plant in order to be in compliance by December 1, 2015 with a new discharge permit issued by the State of Michigan. The new discharge permit issued by the State included more stringent discharge requirements which the plant is currently not able to meet. Additionally, the 40 year old plant needs significant improvements to meet current design and safety standards as well as to reduce the time and expense required for operation and maintenance of the facility.

The State's new permit includes a schedule of timing for the City to get into compliance with the updated requirements. This compliance mandate requires an upgrade to the treatment plant to meet the new discharge criteria. The cost of the upgrade is estimated at approximately \$10 million.

Construction on the project is expected to begin in September of 2014 with the expectation that the plant will be operational at its permitted levels by December 2015. Construction will be completed in the Spring of 2016.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

17. Net Investment in Capital Assets

The composition of net investment in capital assets as of March 31, 2014, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 1,569,534	\$ 923,071
Capital assets being depreciated, net	9,471,358	27,330,657	3,004,053
	<u>26,404,155</u>	<u>28,900,191</u>	<u>3,927,124</u>
Long-term liabilities:			
Due within one year	27,638	268,084	-
Due in more than one year	243,260	4,577,184	-
Advance from other funds	-	696,500	-
Less: compensated absences	(270,898)	-	-
	<u>-</u>	<u>5,541,768</u>	<u>-</u>
Net investment in capital assets	<u>\$ 26,404,155</u>	<u>\$ 23,358,423</u>	<u>\$ 3,927,124</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

18. Fund Balances - Governmental Funds

Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Perpetual care	\$ -	\$ 401,525	\$ 401,525
Prepays	1,277	-	1,277
Total nonspendable	<u>1,277</u>	<u>401,525</u>	<u>402,802</u>
Restricted for:			
Drug forfeitures	1,182	-	1,182
Special revenue funds:			
Major streets	-	85,287	85,287
Local streets	-	46,150	46,150
Capital project funds:			
Infrastructure improvements	-	146,372	146,372
Street improvements	-	8,959	8,959
Total restricted	<u>1,182</u>	<u>286,768</u>	<u>287,950</u>
Assigned for:			
Capital project funds:			
Fire Truck and Ambulance	-	79,669	79,669
Industrial Park	-	101,043	101,043
Mt. McSauba Improvements	-	1,230	1,230
Total assigned	<u>-</u>	<u>181,942</u>	<u>181,942</u>
Unassigned	<u>1,142,404</u>	<u>-</u>	<u>1,142,404</u>
Total fund balances, governmental funds	<u>\$ 1,144,863</u>	<u>\$ 870,235</u>	<u>\$ 2,015,098</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information
Employees' Retirement Plan

Schedule of Funding Progress
MERS Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	\$ 7,569,880	\$ 10,483,326	\$ 2,913,446	72%	\$ 2,192,987	133%
12/31/09	7,891,679	11,267,031	3,375,352	70%	2,320,921	145%
12/31/10	8,225,348	11,815,094	3,589,746	70%	2,322,846	155%
12/31/11	8,528,633	11,847,262	3,318,629	72%	2,370,449	140%
12/31/12	8,698,156	11,586,142	2,887,986	75%	2,406,655	120%
12/31/13	8,915,155	11,830,180	2,915,025	75%	2,631,200	111%

Schedule of Employer Contributions
MERS Defined Benefit Pension Plan

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
3/31/09	\$ 340,778	100%
3/31/10	356,180	100%
3/31/11	356,360	100%
3/31/12	381,096	100%
3/31/13	281,799	100%
3/31/14	274,075	100%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

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CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2014

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 31,646	\$ 36,783	\$ 79,669	\$ 101,043
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other funds	-	2,540	-	-
Due from other governmental units	55,840	11,584	-	-
Total assets	\$ 87,486	\$ 50,907	\$ 79,669	\$ 101,043
Liabilities				
Accounts payable	\$ 145	\$ 1,639	\$ -	\$ -
Accrued liabilities	2,054	578	-	-
Due to other funds	-	2,540	-	-
Unearned revenue	-	-	-	-
Total liabilities	2,199	4,757	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	85,287	46,150	-	-
Assigned	-	-	79,669	101,043
Total fund balances	85,287	46,150	79,669	101,043
Total liabilities and fund balances	\$ 87,486	\$ 50,907	\$ 79,669	\$ 101,043

Capital Projects Funds			Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Cemetery Care	Total
\$ 85,137	\$ 3,752	\$ 1,813	\$ 124,723	\$ 464,566
50,000	-	-	276,000	326,000
12	-	582	-	594
14,212	10,791	-	-	25,003
147	-	-	802	949
2,540	-	-	-	5,080
-	-	-	-	67,424
<u>\$ 152,048</u>	<u>\$ 14,543</u>	<u>\$ 2,395</u>	<u>\$ 401,525</u>	<u>\$ 889,616</u>
\$ 3,136	\$ 5,584	\$ -	\$ -	\$ 10,504
-	-	-	-	2,632
2,540	-	-	-	5,080
-	-	1,165	-	1,165
<u>5,676</u>	<u>5,584</u>	<u>1,165</u>	<u>-</u>	<u>19,381</u>
-	-	-	401,525	401,525
146,372	8,959	-	-	286,768
-	-	1,230	-	181,942
<u>146,372</u>	<u>8,959</u>	<u>1,230</u>	<u>401,525</u>	<u>870,235</u>
<u>\$ 152,048</u>	<u>\$ 14,543</u>	<u>\$ 2,395</u>	<u>\$ 401,525</u>	<u>\$ 889,616</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended March 31, 2014

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	286,939	80,571	-	-
Charges for services	-	-	-	-
Interest	19	11	18	34
Rents and royalties	-	-	-	-
Other revenue	-	-	3,587	500
Total revenues	286,958	80,582	3,605	534
Expenditures				
Current:				
General government	-	-	-	4,696
Public works	455,923	530,632	-	-
Recreation and culture	-	-	-	-
Total expenditures	455,923	530,632	-	4,696
Revenues over (under) expenditures	(168,965)	(450,050)	3,605	(4,162)
Other financing sources (uses)				
Transfers in	151,584	383,214	73,500	-
Transfers out	-	-	-	-
Total other financing sources (uses)	151,584	383,214	73,500	-
Net change in fund balances	(17,381)	(66,836)	77,105	(4,162)
Fund balances, beginning of year	102,668	112,986	2,564	105,205
Fund balances, end of year	\$ 85,287	\$ 46,150	\$ 79,669	\$ 101,043

Capital Projects Funds				Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Cemetery Care		Total
\$ 455,305	\$ 218,983	\$ -	\$ -	\$ -	\$ 674,288
-	-	-	-	-	367,510
-	-	-	8,025	-	8,025
265	7	1	964	-	1,319
-	-	6,911	-	-	6,911
-	-	195	-	-	4,282
<u>455,570</u>	<u>218,990</u>	<u>7,107</u>	<u>8,989</u>		<u>1,062,335</u>
50,143	-	-	-	-	54,839
-	-	-	-	-	986,555
-	24,202	-	-	-	24,202
<u>50,143</u>	<u>24,202</u>	<u>-</u>	<u>-</u>		<u>1,065,596</u>
<u>405,427</u>	<u>194,788</u>	<u>7,107</u>	<u>8,989</u>		<u>(3,261)</u>
-	-	-	-	-	608,298
<u>(453,496)</u>	<u>(287,667)</u>	<u>(9,500)</u>	<u>-</u>	<u>-</u>	<u>(750,663)</u>
<u>(453,496)</u>	<u>(287,667)</u>	<u>(9,500)</u>	<u>-</u>		<u>(142,365)</u>
(48,069)	(92,879)	(2,393)	8,989		(145,626)
<u>194,441</u>	<u>101,838</u>	<u>3,623</u>	<u>392,536</u>		<u>1,015,861</u>
<u>\$ 146,372</u>	<u>\$ 8,959</u>	<u>\$ 1,230</u>	<u>\$ 401,525</u>		<u>\$ 870,235</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2014

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets:				
Cash and cash equivalents	\$ 512,586	\$ 474,815	\$ 521,092	\$ 1,508,493
Investments	100,000	100,000	400,000	600,000
Accounts receivable	4,244	-	-	4,244
Interest receivable	488	346	2,259	3,093
Due from other funds	53,474	-	-	53,474
Other assets	53,119	355	-	53,474
Total current assets	723,911	575,516	923,351	2,222,778
Noncurrent assets:				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets being depreciated, net	-	1,082,639	57,557	1,140,196
Total noncurrent assets	-	1,103,292	120,557	1,223,849
Total assets	723,911	1,678,808	1,043,908	3,446,627
Liabilities				
Current liabilities:				
Accounts payable	43,748	41,619	-	85,367
Accrued liabilities	7,480	2,391	-	9,871
Current portion of compensated absences	12,491	-	-	12,491
Unearned revenue	5,743	-	-	5,743
Due to other funds	45,550	-	-	45,550
Total current liabilities	115,012	44,010	-	159,022
Noncurrent liabilities				
Compensated absences - vacation	144,527	-	-	144,527
Total liabilities	259,539	44,010	-	303,549
Net position				
Net investment in capital assets	-	1,103,292	120,557	1,223,849
Unrestricted	464,372	531,506	923,351	1,919,229
Total net position	\$ 464,372	\$ 1,634,798	\$ 1,043,908	\$ 3,143,078

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Internal Service Funds

For the Year Ended March 31, 2014

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,259,959	\$ 723,831	\$ -	\$ 2,983,790
Operating expenses				
Personnel services	2,018,520	161,037	-	2,179,557
Contractual services	2,244	26,202	-	28,446
Supplies	-	126,908	-	126,908
Utilities	-	10,557	-	10,557
Repairs and maintenance	-	128,400	-	128,400
Depreciation	-	189,384	8,409	197,793
Miscellaneous	1,682	232	-	1,914
Total operating expenses	2,022,446	642,720	8,409	2,673,575
Operating income (loss)	237,513	81,111	(8,409)	310,215
Nonoperating revenues (expenses)				
Interest revenue	1,021	1,295	2,298	4,614
Gain from sale of capital assets	-	7,616	-	7,616
Other revenue (expense)	267	751	-	1,018
Total nonoperating revenues (expenses)	1,288	9,662	2,298	13,248
Income (loss) before transfers	238,801	90,773	(6,111)	323,463
Transfers				
Transfers in	-	204,500	177,000	381,500
Transfers out	-	(102,788)	-	(102,788)
Total transfers	-	101,712	177,000	278,712
Changes in net position	238,801	192,485	170,889	602,175
Net position, beginning of year	225,571	1,442,313	873,019	2,540,903
Net position, end of year	\$ 464,372	\$ 1,634,798	\$ 1,043,908	\$ 3,143,078

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2014

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,257,585	\$ 723,831	\$ -	\$ 2,981,416
Cash payments to employees	(2,016,647)	(160,661)	-	(2,177,308)
Cash payments to suppliers for goods and services	(8,280)	(392,813)	-	(401,093)
Net cash provided by operating activities	<u>232,658</u>	<u>170,357</u>	<u>-</u>	<u>403,015</u>
Cash flows from noncapital financing activities				
Other receipts	267	751	-	1,018
Repayment on advance from other funds	-	(46,459)	-	(46,459)
Transfers in	-	204,500	177,000	381,500
Transfers out	-	(102,788)	-	(102,788)
Net cash provided by (used in) noncapital financing activities	<u>267</u>	<u>56,004</u>	<u>177,000</u>	<u>233,271</u>
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	7,616	-	7,616
Purchase of capital assets	-	(237,518)	-	(237,518)
Net cash used in capital and related financing activities	<u>-</u>	<u>(229,902)</u>	<u>-</u>	<u>(229,902)</u>
Cash flows from investing activities				
Proceeds from matured investments	100,000	-	-	100,000
Purchase of investments	(100,000)	-	(100,000)	(200,000)
Investment income	919	1,180	1,121	3,220
Net cash provided by (used in) investing activities	<u>919</u>	<u>1,180</u>	<u>(98,879)</u>	<u>(96,780)</u>
Net increase (decrease) in cash and cash equivalents	<u>233,844</u>	<u>(2,361)</u>	<u>78,121</u>	<u>309,604</u>
Cash and cash equivalents, beginning of year	<u>278,742</u>	<u>477,176</u>	<u>442,971</u>	<u>1,198,889</u>
Cash and cash equivalents, end of year	<u>\$ 512,586</u>	<u>\$ 474,815</u>	<u>\$ 521,092</u>	<u>\$ 1,508,493</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2014

	Governmental Activities		Business-type	Total
	Employee Fringe Benefits	Motor Vehicle	Activities DPW Site	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 237,513	\$ 81,111	\$ (8,409)	\$ 310,215
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	189,384	8,409	197,793
Changes in assets and liabilities:				
Accounts receivable	(2,856)	-	-	(2,856)
Other assets	(6,627)	(355)	-	(6,982)
Accounts payable	2,273	(100,159)	-	(97,886)
Accrued liabilities	(4,048)	376	-	(3,672)
Unearned revenue	482	-	-	482
Accrued compensated absences	5,921	-	-	5,921
Net cash provided by operating activities	<u>\$ 232,658</u>	<u>\$ 170,357</u>	<u>\$ -</u>	<u>\$ 403,015</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position
 Downtown Development Authority Component Unit
 March 31, 2014

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 617,483	\$ -	\$ 617,483
Investments	50,000	-	50,000
Receivables	37,813	-	37,813
Other assets	44	-	44
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	3,004,053	3,004,053
Total assets	\$ 705,340	3,927,124	4,632,464
Liabilities			
Accounts payable	\$ 9,398	606	10,004
Accrued liabilities	606	(606)	-
Unearned revenue	500	-	500
Total liabilities	10,504	-	10,504
Fund balance			
Restricted	694,836	(694,836)	-
Total liabilities and fund balance	\$ 705,340		
Net position			
Net investment in capital assets		3,927,124	3,927,124
Restricted		694,836	694,836
Total net position		\$ 4,621,960	\$ 4,621,960

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities Downtown Development Authority Component Unit For the Year Ended March 31, 2014

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 715,235	\$ -	\$ 715,235
Rents	49,009	-	49,009
Miscellaneous	37,522	-	37,522
Total revenues	801,766	-	801,766
Expenditures / expenses			
Current:			
Other functions	460,676	184,435	645,111
Debt service:			
Principal	285,000	(285,000)	-
Interest and fiscal charges	9,975	(9,975)	-
Total expenditures / expenses	755,651	(110,540)	645,111
Change in fund balance / net position	46,115	110,540	156,655
Fund balance / net position, beginning of year	648,721	3,816,584	4,465,305
Fund balance / net position, end of year	\$ 694,836	\$ 3,927,124	\$ 4,621,960

INTERNAL CONTROL AND COMPLIANCE

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

September 11, 2014

Honorable members of the City Council
of the City of Charlevoix
Charlevoix, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-FS-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-FS-02 to be a significant deficiency.

Compliance and Other Matters

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

City of Charlevoix’s Response to Findings

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2014

2014-FS-01 - Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the City's internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect: As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The City should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

View of Responsible Officials. The City will continue its efforts to record all known adjustments in order to provide a reasonably adjusted trial balance for the purposes of the audit.

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2014

2014-FS-02 - Preparation of Financial Statements in Accordance with GAAP

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare general purpose external financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause. This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the City lacks appropriate internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

View of Responsible Officials. The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors and to carefully review the proposed journal entries, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.