

# **CITY OF CHARLEVOIX**

## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
March 31, 2010**

# CITY OF CHARLEVOIX

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**MARCH 31, 2010**

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# CITY OF CHARLEVOIX

## List of Elected and Appointed Officials For the Fiscal Year Ended March 31, 2010

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### Elected Officials

Mayor	Norman Carlson
Mayor Pro Tem	Jill Picha
Council Member	Bryan Vollmer
Council Member	Dennis Kusina
Council Member	Lyle Gennett
Council Member	Shane Cole
Council Member	Greg Stevens
Clerk	Carol Ochs

### Appointed Officials

City Manager	Robert Straebel
Attorney	James Young
Police Chief	Gerard Doan
Fire & Ambulance	Paul Ivan
Electric & Water Superintendent	Donald Swem
Treasurer	Richard Brandi
Street Superintendent	Pat Elliott
Wastewater/Water Superintendent	James Caldwell
Harbormaster	Hal Evans
Planning Director/Zoning Administrator	Mike Spencer
Recreation Director	Dwight Boss
Director of Golf	Tom Heid

## INDEPENDENT AUDITORS' REPORT

August 9, 2010

The Honorable Mayor and  
Members of the City Council  
City of Charlevoix  
Charlevoix County, Michigan

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* (the "City"), as of and for the year ended March 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-13 and the Defined Benefit Pension Plan historical data presented on page 53 are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman".

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



## Management's Discussion and Analysis

As management of the **City of Charlevoix** (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, 2010.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$60,800,723 (*net assets*). Of this amount, \$9,233,106 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$1,731,557.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,468,665, an increase of \$570,223 in comparison with the prior year. Approximately 79% percent of this total amount or \$1,955,656 is *available for spending* at the City's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$1,007,358 or 35% 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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – 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.

The government-wide financial statements can be found on pages 14-16 of this report.

**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*.

The City maintains 12 individual governmental funds. 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 and Airport Fund, each of which are considered to be major funds. 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 and Special Revenue Funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-24 of this report.

**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, and marina 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 and employee fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The City also uses an internal service fund to account for DPW site maintenance. Services provided by this fund predominantly benefit business-type functions 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, sewage disposal, water operations and Marina fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 25-30 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial 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.

The basic fiduciary fund financial statement can be found on page 31 of this report.

**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. The notes to the financial statements can be found on pages 32-52 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 54-57 of this report.

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlevoix, assets exceeded liabilities by \$60,800,723 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (84 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.

An additional portion of the City's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (15 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

**City of Charlevoix - Primary Government  
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>						
Cash and other assets	\$ 3,127,097	\$ 2,297,321	\$ 7,441,267	\$ 6,966,375	\$ 10,568,364	\$ 9,263,696
Capital assets, net of accumulated depreciation	<u>31,344,986</u>	<u>30,799,493</u>	<u>25,926,067</u>	<u>26,048,743</u>	<u>57,271,053</u>	<u>56,848,236</u>
<b>Total assets</b>	<b><u>34,472,083</u></b>	<b><u>33,096,814</u></b>	<b><u>33,367,334</u></b>	<b><u>33,015,118</u></b>	<b><u>67,839,417</u></b>	<b><u>66,111,932</u></b>
<b>Liabilities</b>						
Current and other liabilities	346,209	276,839	814,343	809,945	1,160,552	1,086,784
Long-term Liabilities	<u>428,142</u>	<u>470,982</u>	<u>5,450,000</u>	<u>5,485,000</u>	<u>5,878,142</u>	<u>5,955,982</u>
<b>Total liabilities</b>	<b><u>774,351</u></b>	<b><u>747,821</u></b>	<b><u>6,264,343</u></b>	<b><u>6,294,945</u></b>	<b><u>7,038,694</u></b>	<b><u>7,042,766</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	31,199,850	30,632,245	19,776,067	20,563,743	50,975,917	51,195,988
Restricted	366,700	359,588	225,000	225,000	591,700	584,588
Unrestricted	<u>2,131,182</u>	<u>1,357,160</u>	<u>7,101,924</u>	<u>5,931,430</u>	<u>9,233,106</u>	<u>7,288,590</u>
<b>Total net assets</b>	<b><u>\$ 33,697,732</u></b>	<b><u>\$ 32,348,993</u></b>	<b><u>\$ 27,102,991</u></b>	<b><u>\$ 26,720,173</u></b>	<b><u>\$ 60,800,723</u></b>	<b><u>\$ 59,069,166</u></b>

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

The City's net assets increased by \$1,731,557 during the current fiscal year.

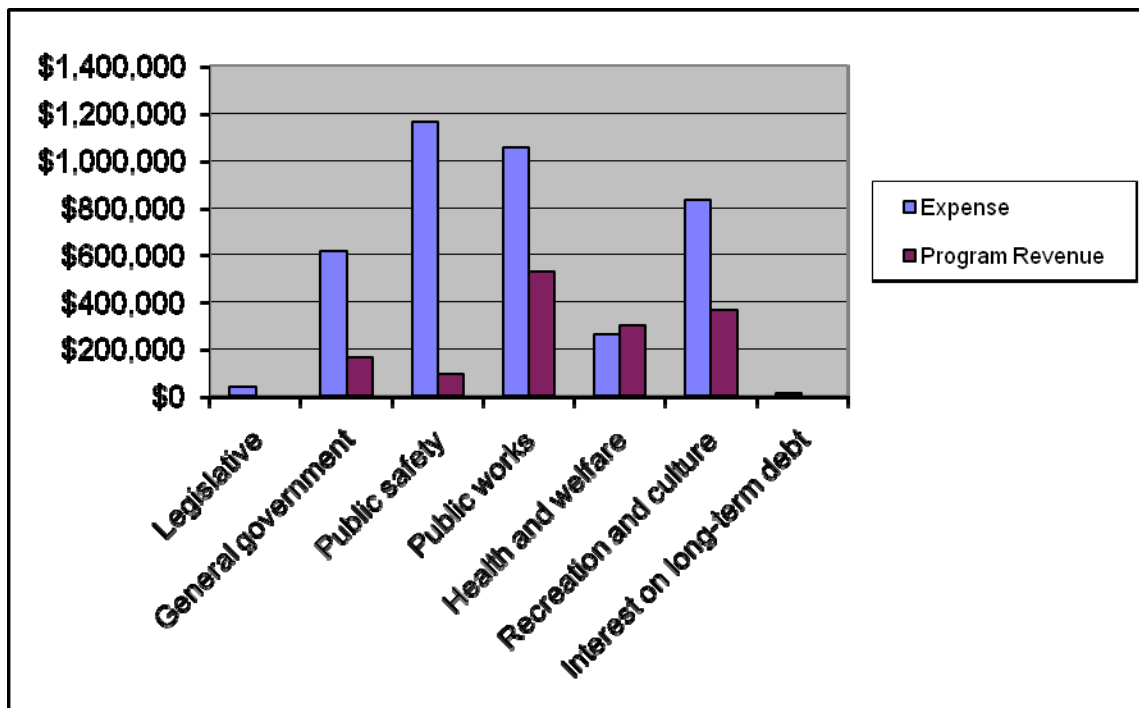
**City of Charlevoix - Primary Government  
Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,056,806	\$ 1,007,010	\$ 7,365,465	\$ 7,268,439	\$ 8,422,271	\$ 8,275,449
Operating grants and contributions	385,641	420,378	202,137	643,706	587,778	1,064,084
Capital grants and contributions	699,468	421,845	210,689	929,249	910,157	1,351,094
General revenues property taxes	3,050,329	2,720,833	-	-	3,050,329	2,720,833
Grants and contributions not restricted to specific programs	257,468	272,417	619,595	-	877,063	272,417
Unrestricted investment earnings	21,011	49,668	-	-	21,011	49,668
Gain on sale of capital assets	11,000	7,836	-	8,300	11,000	16,136
<b>Total revenues</b>	<b><u>5,481,723</u></b>	<b><u>4,899,987</u></b>	<b><u>8,397,886</u></b>	<b><u>8,849,694</u></b>	<b><u>13,879,609</u></b>	<b><u>13,749,681</u></b>
<b>Expenses</b>						
Legislative	35,839	66,083	-	-	35,839	66,083
General government	614,269	737,841	-	-	614,269	737,841
Public safety	1,162,447	1,130,171	-	-	1,162,447	1,130,171
Public works	1,052,745	1,094,348	-	-	1,052,745	1,094,348
Health and welfare	259,702	237,730	-	-	259,702	237,730
Recreation and culture	832,927	1,014,171	-	-	832,927	1,014,171
Interest on long-term debt	8,647	12,031	-	-	8,647	12,031
Electric	-	-	4,990,508	5,089,601	4,990,508	5,089,601
Sewage disposal	-	-	1,056,677	1,165,325	1,056,677	1,165,325
Water	-	-	964,544	952,953	964,544	952,953
Marina	-	-	1,159,747	864,632	1,159,747	864,632
<b>Total expenses</b>	<b><u>3,966,576</u></b>	<b><u>4,292,375</u></b>	<b><u>8,171,476</u></b>	<b><u>8,072,511</u></b>	<b><u>12,138,052</u></b>	<b><u>12,364,886</u></b>
Increase in net assets before transfers	1,515,147	607,612	226,410	777,183	1,741,557	1,384,795
Transfers & Local contributions	(166,408)	(254,490)	156,408	254,490	(10,000)	-
<b>Change in net assets</b>	<b><u>1,348,739</u></b>	<b><u>353,122</u></b>	<b><u>382,818</u></b>	<b><u>1,031,673</u></b>	<b><u>1,731,557</u></b>	<b><u>1,384,795</u></b>
Net assets – beginning of year	32,348,993	32,046,964	26,720,173	25,688,500	59,069,166	57,735,464
Prior period Adjustment	-	(51,093)	-	-	-	(51,093)
<b>Net assets – end of year</b>	<b><u>\$ 33,697,732</u></b>	<b><u>\$ 32,348,993</u></b>	<b><u>\$ 27,102,991</u></b>	<b><u>\$ 26,720,173</u></b>	<b><u>\$ 60,800,723</u></b>	<b><u>\$ 59,069,166</u></b>

**Governmental activities.** Governmental activities increased the City’s net assets by \$1,348,739. Key elements of this increase are as follows:

- Property tax revenue increased by \$329,496 (11%) which was related to a slight increase in taxable values in the City.
- Capital grants and contributions increased approximately \$278,000 resulting from increased Federal revenue for airport capital improvements.
- Federal (“FAA”) and State of Michigan grants provided approximately \$700,000 for improvements at the airport.
- The City Hall Improvements Capital Projects Fund received transfers of \$60,000 from the Infrastructure Improvements Capital Projects fund and \$46,200 from the Electric, Water & Sewer Utility proprietary funds eliminating the total outstanding advances to the fund.

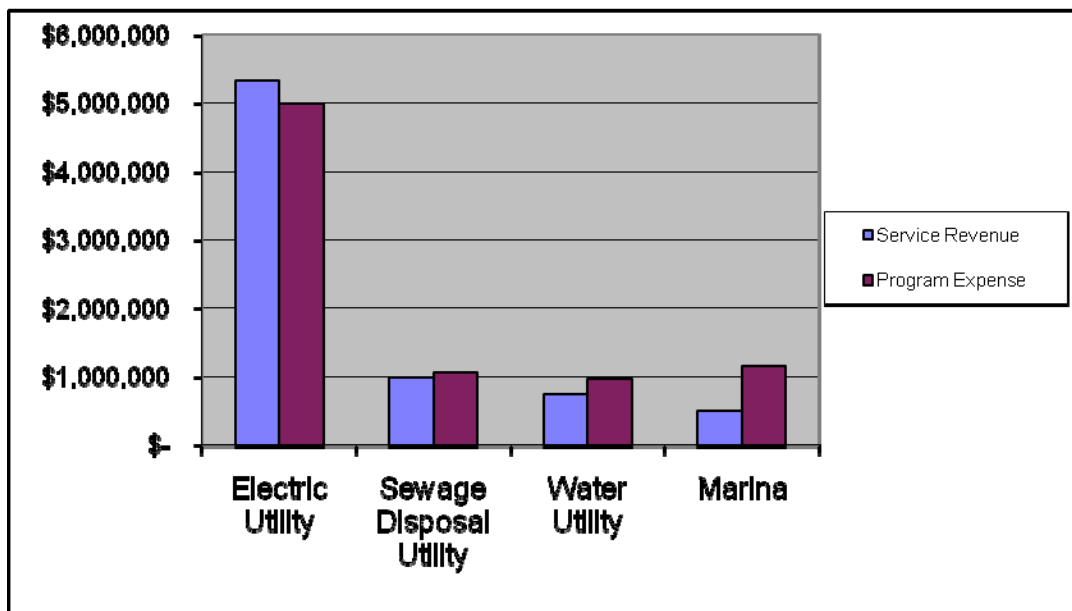
**Expenses and Program Revenues – Governmental Activities**



**Business-type activities.** Business-type activities increased the City’s net assets by \$382,818. Key elements of this change are as follows:

- The Marina Fund and DDA had over \$390,000 in improvements to East Park (trout stream), while the Utilities (Water & Sewer Funds) had a net loss from operations for the year.
- The Marina Fund operating grants and contributions decreased from the prior year by approximately \$442,000. This was related to contributions of approximately \$187,000 for the trout stream and approximately \$339,000 in funds received from the DDA for debt service.
- The Marina Fund capital grants and contributions decreased from the prior year by approximately \$688,000. This was related to the completion of the Marina project during 2009, which was funded in part with capital grants and contributions.

**Expenses and Program Revenues - Business-type Activities**



**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, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$2,468,665, an increase of \$570,223 in comparison with the prior year. A significant portion of the fund balances, \$1,955,656, constitutes *unreserved undesignated fund*

*balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for Perpetual Care.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,007,358. As a measure of the General Fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents 31% percent of total General Fund expenditures and transfers out.

The fund balance of the City's General Fund increased by \$252,568 during the current fiscal year, compared to a budgeted increase of \$21,333. Many factors contributed to this change during the year, but the main reasons for the increase were lower costs in the City Hall as well as lower cost in General Government, Public Works, Public Safety, Recreation, Other and Ambulance than estimated prior to the year-end in the budgeting process.

The Airport Fund had a total fund balance of \$13,799. The Airport Fund's fund balance decreased by \$5,233, compared to a budgeted decrease of \$40,666, due in most part to increase in charges for services, transfers and miscellaneous revenue related to lighting damage at the airport.

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

Unrestricted net assets of the Electric Utility, Sewage Disposal Utility, Water Utility and Marina Funds at the end of the year amounted to \$6,763,485 and the investment in capital assets net of related debt was \$19,670,973. The Electric Utility Fund had an increase in net assets for the year of \$230,911, the Sewage Disposal Utility Fund an increase of \$560,900, the Water Utility Fund a decrease of \$164,083, and the Marina Fund had a decrease of \$440,650. 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 and expenditures were less than budgetary estimates. There was an increase in fund balance of \$252,568 compared to a budgeted increase of \$21,333. This was a result of lower than expected expenditures in the general fund. The reduction in expenditures was a result of increased awareness by Department Heads and staff of declining revenues related to State Revenue reductions and certain revenue losses anticipated in future years caused by falling property values and tax revenues.

### **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, 2010, amounted to \$57,271,053 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings and systems, equipment, vehicles and infrastructure including park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was approximately 1% percent.



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

- Utility system improvements and equipment purchases.
- Park Avenue engineering and construction
- Completion of the Trout Stream
- Equipment purchases at the City airport and update of the airport master plan

**City of Charlevoix - Primary Government  
Capital Assets  
(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 17,892,863	\$ 17,892,862	\$ 609,468	\$ 609,468	\$ 18,502,331	\$ 18,502,330
Construction-in-progress	886,576	19,095	168,461	32,040	1,055,037	51,135
Land improvements	3,579,765	3,714,002	12,475,075	12,956,856	16,054,840	16,670,858
Infrastructure	1,004,781	1,017,730	-	-	1,004,781	1,017,730
Buildings and systems	6,090,085	6,050,369	12,140,182	11,978,476	18,230,267	18,029,115
Equipment	946,481	1,051,770	532,881	471,633	1,479,362	1,523,403
Vehicles	944,435	1,053,665	-	-	944,435	1,053,665
<b>Total</b>	<b><u>\$ 31,344,986</u></b>	<b><u>\$ 30,799,493</u></b>	<b><u>\$ 25,926,067</u></b>	<b><u>\$ 26,048,743</u></b>	<b><u>\$ 57,271,053</u></b>	<b><u>\$ 56,848,236</u></b>

Additional information on the City's capital assets can be found in Note III C on pages 41-44 of this report.

**Long-term debt.** At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of \$145,136. This amount comprises debt backed by the full faith and credit of the City. In 2006-07, a new bond was issued for construction of a marina. This bond has a balance of \$5,450,000 which is not included in the above balance. The City has also pledged its full faith and credit to the Downtown Development Authority Component Unit bonded and installment purchase debt agreements of \$1,085,000 and \$228,696, respectively.

**City of Charlevoix  
Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Installment purchase agreement	\$ 90,369	\$ -	\$ 228,696
MDOT loan	54,767	-	-
Marina limited tax general obligation bonds	-	5,450,000	-
General obligation refunding bond	<u>-</u>	<u>-</u>	<u>1,085,000</u>
<b>Total</b>	<b><u>\$ 145,136</u></b>	<b><u>\$ 5,450,000</u></b>	<b><u>\$ 1,313,696</u></b>

The City's and Component Unit's total debt decreased by \$421,478.

The City has an "AA" rating from Moody's for the General Obligation Bond issue for the DDA.

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 \$24,934,609, 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 Note III F on pages 46-48 of this report.

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

The following factors were considered in preparing the City's budget for the 2010-11 fiscal year:

- The unemployment rate for the Northwest Michigan region is currently 10.3%, a decrease from 13.1% a year ago. This compares to the state's current average unemployment rate of 13.75 % and the national average rate of 9.34%.
- The Michigan economy has significant problems and the State has a reduced credit rating. However, the City's credit rating was maintained during the year by Standard & Poor's. There have been reductions in revenues from sales tax and this trend is expected to continue for at least the next year. Problems with foreclosures and reduction in taxable values were considered in preparing the budget and are reflected in utility bad debt estimates and write offs, as well as in the calculations for tax revenue.
- The tax collection rate for the year remained at 97% of billed taxes. This rate has remained virtually unchanged for the last 5 years. The County tax revolving fund reimburses the City for delinquent real property taxes in May each year following the March settlement.
- An increase of 2% in health care costs in the 2010-11 budget were factored in to the Employee Fringe Benefit ("EFB") rate applied to all funds to maintain a break-even in the EFB. The City's share could increase by approximately 2% due to an increase in caps and differences in labor agreements and an additional option (Healthcare Savings

Account coupled with a high deductible plan) is being offered a second time with the benefit package being prepared by the healthcare committee. Considerable savings in premium costs can be recognized for employees switching to the high deductible plan.

- We have received the MERS (Retirement System) funding rates for next year (2010-11) and they will increase significantly, but our additional contributions over the past two years will significantly reduce our liability to the retirement fund in future years. The budget was estimated at a 6.6% increase and the estimated actual cost from the actuarial report is 5.1%.
- A revenue increase for State Revenue Sharing or Act 51 monies is not factored into the budget. The operating millage of 9.05 mills remained the same as was adopted in the 2010-11 budget to enable the same level of service to taxpayers be provided by the General Fund. The infrastructure millage was again levied for 2.1028 mills and was not subject to the Headlee Rollback. The proposed tax rates are unchanged and cost reduction is the only way to maintain current service levels. Some levels have been cut and the adopted budget included increased revenues of \$14,700 due to rate increases and reductions in spending of \$295,000 in the General Fund. Reductions to all funds totaled \$497,000 to balance the budget. Additional Revenue Sharing cuts are expected as the State faces a budget deficit for their 2010-11 budget.
- Sewer rates increased 6%, in line with a cost of service study to offset projected losses in the business type fund.
- Water rates increased 4% as suggested by the cost of service study to offset losses and to fund future capital improvements planned in the fund.
- Electric rates remained the same, but a cost of service study is underway for the 2011-12 Budget year, with a mid-year correction possible if it is necessary. As required by PA 295, the City plan for Renewable Energy and Energy Optimization was approved by the Michigan Public Service Commission and this requires the current Energy Optimization Charge for the average residential customers at \$.58/month. No additional fee was set for Renewable Energy.
- Rates were also increased for the golf course, Mt. McSauba ski area, skating rink, ambulance rates and Planning Department fees to offset additional costs of operation in these areas.

### **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 [rbrandi@cityofcharlevoix.org](mailto:rbrandi@cityofcharlevoix.org) or by visiting our Web site at [www.cityofcharlevoix.org](http://www.cityofcharlevoix.org) for additional supplemental budgetary information.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF CHARLEVOIX**  
**STATEMENT OF NET ASSETS**

**MARCH 31, 2010**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,459,335	\$ 3,520,248	\$ 4,979,583	\$ 229,315
Cash with fiscal agent	-	110,998	110,998	117,526
Investments	1,276,650	2,266,209	3,542,859	25,000
Receivables	562,364	998,818	1,561,182	26,350
Internal balances	(209,176)	209,176	-	-
Other assets	37,924	335,818	373,742	17,836
Capital assets not being depreciated	18,779,439	777,929	19,557,368	923,071
Capital assets, net of depreciation	12,565,547	25,148,138	37,713,685	3,716,991
<b>Total assets</b>	<b>34,472,083</b>	<b>33,367,334</b>	<b>67,839,417</b>	<b>5,056,089</b>
<b>Liabilities</b>				
Accounts payable	186,938	806,515	993,453	1,761
Accrued liabilities	159,271	7,828	167,099	10,860
Noncurrent liabilities				
Long-term debt due within one year	23,212	100,000	123,212	374,347
Long-term debt due in more than one year	404,930	5,350,000	5,754,930	939,349
<b>Total liabilities</b>	<b>774,351</b>	<b>6,264,343</b>	<b>7,038,694</b>	<b>1,326,317</b>
<b>Net assets</b>				
Invested in capital assets, net of related deb	31,199,850	19,776,067	50,975,917	3,326,366
Restricted for				
Nonexpendable perpetual care	366,700	-	366,700	-
Replacement and redemption	-	225,000	225,000	-
Debt service	-	-	-	403,406
Unrestricted	2,131,182	7,101,924	9,233,106	-
<b>Total net assets</b>	<b>\$ 33,697,732</b>	<b>\$ 27,102,991</b>	<b>\$ 60,800,723</b>	<b>\$ 3,729,772</b>

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

**CITY OF CHARLEVOIX**  
**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2010**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>				
Governmental activities				
Legislative	\$ 35,839	\$ -	\$ -	\$ (35,839)
General government	614,269	163,990	-	(449,079)
Public safety	1,162,447	77,160	-	(1,070,631)
Public works	1,052,745	184,914	699,468	170,374
Health and welfare	259,702	296,542	-	36,840
Recreation and culture	832,927	334,200	-	(477,679)
Interest on long-term debt	8,647	-	-	(8,647)
Total governmental activities	<u>3,966,576</u>	<u>1,056,806</u>	<u>699,468</u>	<u>(1,834,661)</u>
Business-type activities				
Electric	4,990,508	5,288,787	-	335,292
Sewage disposal	1,056,677	992,515	-	(60,823)
Water	964,544	736,117	-	(225,209)
Marina	1,159,747	348,046	210,689	(442,445)
Total business-type activities	<u>8,171,476</u>	<u>7,365,465</u>	<u>210,689</u>	<u>(393,185)</u>
<b>Total primary government</b>	<u><b>\$ 12,138,052</b></u>	<u><b>\$ 8,422,271</b></u>	<u><b>\$ 910,157</b></u>	<u><b>\$ (2,227,846)</b></u>
<b>Component unit</b>				
Downtown Development Authority	<u><b>\$ 598,221</b></u>	<u><b>\$ 23,018</b></u>	<u><b>\$ 25,321</b></u>	<u><b>\$ (543,871)</b></u>

Continued...

**CITY OF CHARLEVOIX**  
**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2010**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net expense	\$ (1,834,661)	\$ (393,185)	\$ (2,227,846)	\$ (543,871)
General revenues				
Property taxes	3,050,329	-	3,050,329	809,460
Grants and contributions not restricted to specific programs	257,468	619,595	877,063	-
Unrestricted investment earnings	21,011	-	21,011	-
Gain on sale of capital assets	11,000	-	11,000	-
Transfers - internal activities	(156,408)	156,408	-	-
Total general revenues and transfers	3,183,400	776,003	3,959,403	809,460
<b>Changes in net assets</b>	<b>1,348,739</b>	<b>382,818</b>	<b>1,731,557</b>	<b>265,589</b>
Net assets, beginning of year	32,348,993	26,720,173	59,069,166	3,464,183
<b>Net assets, end of year</b>	<b>\$ 33,697,732</b>	<b>\$ 27,102,991</b>	<b>\$ 60,800,723</b>	<b>\$ 3,729,772</b>

Concluded

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



## **FUND FINANCIAL STATEMENTS**

**CITY OF CHARLEVOIX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**MARCH 31, 2010**

	<b>General</b>	<b>Airport</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 510,968	\$ 4,651	\$ 535,219	\$ 1,050,838
Investments	457,456	-	628,212	1,085,668
Accounts receivable	63,532	25,395	1,396	90,323
Taxes receivable	123,676	-	245,338	369,014
Interest receivable	3,576	-	3,874	7,450
Other assets	373	14	-	387
Due from other funds	37,583	-	-	37,583
Due from other governments	47,947	-	45,909	93,856
<b>Total assets</b>	<b>\$ 1,245,111</b>	<b>\$ 30,060</b>	<b>\$ 1,459,948</b>	<b>\$ 2,735,119</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 89,189	\$ 15,774	\$ 13,496	\$ 118,459
Accrued expenses	92,552	487	1,317	94,356
Due to other funds	53,474	-	-	53,474
Deferred revenue	165	-	-	165
<b>Total liabilities</b>	<b>235,380</b>	<b>16,261</b>	<b>14,813</b>	<b>266,454</b>
<b>Fund balances</b>				
Reserved for				
Perpetual care	-	-	366,700	366,700
Prepaid expenditures	373	14	-	387
Downtown parking	-	-	114,872	114,872
Scholarships	2,000	-	-	2,000
Unreserved				
Designated for subsequent year's expenditures	-	1,700	27,350	29,050
Undesignated	1,007,358	12,085	-	1,019,443
Undesignated - reported in nonmajor				
Capital Projects Funds	-	-	803,822	803,822
Special Revenue Funds	-	-	132,391	132,391
<b>Total fund balances</b>	<b>1,009,731</b>	<b>13,799</b>	<b>1,445,135</b>	<b>2,468,665</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,245,111</b>	<b>\$ 30,060</b>	<b>\$ 1,459,948</b>	<b>\$ 2,735,119</b>

Continued...

**CITY OF CHARLEVOIX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**MARCH 31, 2010**

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**Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets**

**Fund balances - total governmental funds** **\$ 2,468,665**

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add - capital assets (net) 30,308,130

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds 1,296,664  
Deduct - net assets allocated to business-type activities from governmental-type activity internal service fund (110,959)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Deduct - installment contracts and loans (145,136)  
Deduct - compensated absences - sick leave (115,818)  
Deduct - accrued interest on bonds and advances (3,814)

**Net assets of governmental activities** **\$ 33,697,732**

Concluded

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

**CITY OF CHARLEVOIX**

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

**FOR THE YEAR ENDED MARCH 31, 2010**

	<b>General</b>	<b>Airport</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 2,343,883	\$ -	\$ 706,446	\$ 3,050,329
Federal revenue	-	699,468	-	699,468
State revenue	247,275	18,404	300,726	566,405
Licenses and permits	2,135	-	-	2,135
Charges for services	705,326	115,094	2,850	823,270
Fines and forfeits	31,049	-	-	31,049
Interest	5,454	3	10,986	16,443
Rents and royalties	112,270	69,820	11,469	193,559
Other revenue	27,313	-	34,106	61,419
<b>Total revenues</b>	<b>3,474,705</b>	<b>902,789</b>	<b>1,066,583</b>	<b>5,444,077</b>
<b>Expenditures</b>				
Current				
Legislative	35,685	-	-	35,685
General government	499,413	-	20,973	520,386
Public safety	1,106,169	-	-	1,106,169
Public works	239,761	906,992	644,585	1,791,338
Health and welfare	258,611	-	-	258,611
Recreation and culture	882,886	-	-	882,886
Other expenditures	31,138	-	329	31,467
Debt service				
Principal	-	22,112	-	22,112
Interest	-	8,318	-	8,318
<b>Total expenditures</b>	<b>3,053,663</b>	<b>937,422</b>	<b>665,887</b>	<b>4,656,972</b>
<b>Revenues over (under) expenditures</b>	<b>421,042</b>	<b>(34,633)</b>	<b>400,696</b>	<b>787,105</b>
<b>Other financing (uses) sources</b>				
Transfers in	-	29,400	505,143	534,543
Transfers out	(168,474)	-	(582,951)	(751,425)
<b>Total other financing (uses) sources</b>	<b>(168,474)</b>	<b>29,400</b>	<b>(77,808)</b>	<b>(216,882)</b>
<b>Net change in fund balances</b>	<b>252,568</b>	<b>(5,233)</b>	<b>322,888</b>	<b>570,223</b>
Fund balances, beginning of year	757,163	19,032	1,122,247	1,898,442
<b>Fund balances, end of year</b>	<b>\$ 1,009,731</b>	<b>\$ 13,799</b>	<b>\$ 1,445,135</b>	<b>\$ 2,468,665</b>

Continued...

**CITY OF CHARLEVOIX**

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

**FOR THE YEAR ENDED MARCH 31, 2010**

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**Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds  
to statement of activities**

**Net change in fund balances - total governmental funds** **\$ 570,223**

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

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

Add - capital outlay	1,316,124
Deduct - depreciation expense	(717,962)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	22,112
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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.

Add - change in net assets from governmental activities accounted for in internal service funds	124,003
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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.

Deduct - increase in compensated absences - sick leave	(726)
Add - decrease in accrued interest on bonds payable and advances	34,965

**Change in net assets of governmental activities** **\$ 1,348,739**

Concluded

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

**CITY OF CHARLEVOIX**

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

**FOR THE YEAR ENDED MARCH 31, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		(Under) Over Final Budget
<b>Taxes</b>				
Property taxes	\$ 2,301,400	\$ 2,306,302	\$ 2,305,428	\$ (874)
Payments in lieu of taxes	3,400	3,328	3,748	420
Interest and penalties on delinquent taxes	16,000	17,000	14,823	(2,177)
Tax collection fees	16,300	19,657	19,884	227
<b>Total taxes</b>	<b>2,337,100</b>	<b>2,346,287</b>	<b>2,343,883</b>	<b>(2,404)</b>
<b>State revenue</b>	<b>273,100</b>	<b>271,425</b>	<b>247,275</b>	<b>(24,150)</b>
<b>Licenses and permits</b>	<b>4,500</b>	<b>1,800</b>	<b>2,135</b>	<b>335</b>
<b>Charges for services</b>				
Fire runs	78,100	77,160	77,160	-
Ambulance runs	149,800	175,000	249,308	74,308
Ambulance contracts	44,200	43,290	47,234	3,944
Charges for services - other	5,200	4,665	5,006	341
Cemetery	45,000	31,000	25,653	(5,347)
Golf course	168,000	150,020	149,775	(245)
Summer sports	10,000	3,668	3,688	20
Day camp	49,800	54,574	57,621	3,047
Winter sports	70,000	70,000	60,277	(9,723)
Basketball	3,100	2,500	750	(1,750)
Skate park	6,600	5,334	5,434	100
Parking	25,300	23,420	23,420	-
<b>Total charges for services</b>	<b>655,100</b>	<b>640,631</b>	<b>705,326</b>	<b>64,695</b>
<b>Fines and forfeits</b>	<b>24,600</b>	<b>27,400</b>	<b>31,049</b>	<b>3,649</b>
<b>Interest and dividends</b>	<b>12,400</b>	<b>4,000</b>	<b>5,454</b>	<b>1,454</b>
<b>Rents and royalties</b>				
City hall	89,300	89,300	90,504	1,204
Boat launch/Habor building	23,500	21,768	21,766	(2)
<b>Total rents and royalties</b>	<b>112,800</b>	<b>111,068</b>	<b>112,270</b>	<b>1,202</b>
<b>Other revenues</b>	<b>3,800</b>	<b>29,165</b>	<b>27,313</b>	<b>(1,852)</b>
<b>Total revenues</b>	<b>3,423,400</b>	<b>3,431,776</b>	<b>3,474,705</b>	<b>42,929</b>

Continued...

**CITY OF CHARLEVOIX**

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

**FOR THE YEAR ENDED MARCH 31, 2010**

	Budgeted Amounts		Actual	Actual (Under) Over Final Budget
	Original	Final		
<b>Legislative</b>				
City council	\$ 55,900	\$ 51,688	\$ 35,685	\$ (16,003)
<b>General government</b>				
Mayor	12,900	8,650	5,924	(2,726)
City manager	72,200	67,213	61,028	(6,185)
Elections	18,000	10,965	16,456	5,491
Assessor	70,600	70,872	68,007	(2,865)
City attorney	80,700	73,000	79,371	6,371
City clerk	43,800	38,336	36,980	(1,356)
City treasurer	75,800	74,100	61,083	(13,017)
City hall and grounds	128,000	105,280	95,172	(10,108)
Cemetery	88,900	87,628	75,392	(12,236)
<b>Total general government</b>	<b>590,900</b>	<b>536,044</b>	<b>499,413</b>	<b>(36,631)</b>
<b>Public safety</b>				
Police department	745,900	715,943	699,797	(16,146)
Parking law enforcement	15,300	11,831	11,838	7
Fire department	348,200	327,540	318,273	(9,267)
Planning department	99,000	92,825	76,261	(16,564)
<b>Total public safety</b>	<b>1,208,400</b>	<b>1,148,139</b>	<b>1,106,169</b>	<b>(41,970)</b>
<b>Public works</b>				
Highways and streets	30,600	30,600	26,845	(3,755)
Leaf pick up	111,900	112,143	110,040	(2,103)
Waste collection	55,900	52,200	58,705	6,505
Brush pickup	57,100	48,238	44,171	(4,067)
<b>Total public works</b>	<b>255,500</b>	<b>243,181</b>	<b>239,761</b>	<b>(3,420)</b>

Continued...

**CITY OF CHARLEVOIX**

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

**FOR THE YEAR ENDED MARCH 31, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		(Under) Over Final Budget
<b>Health and welfare</b>				
<b>Ambulance</b>	<b>\$ 271,600</b>	<b>\$ 294,891</b>	<b>\$ 258,611</b>	<b>\$ (36,280)</b>
<b>Recreation and culture</b>				
Parks	328,100	343,079	348,145	5,066
Recreation administration	33,700	34,343	37,019	2,676
City beaches	37,900	34,997	34,892	(105)
Ball fields	31,000	17,421	17,585	164
Day camp	47,200	44,849	45,025	176
Ice rink	9,600	8,102	4,078	(4,024)
Mt. McSauba ski hill	121,900	157,746	137,219	(20,527)
Basketball and volleyball	5,000	4,000	644	(3,356)
Golf course	221,700	214,492	208,120	(6,372)
Boat launch	16,800	18,118	19,053	935
Skate park	10,400	13,654	14,444	790
Community promotion	16,300	18,499	16,662	(1,837)
<b>Total recreation and culture</b>	<b>879,600</b>	<b>909,300</b>	<b>882,886</b>	<b>(26,414)</b>
<b>Other expenditures</b>	<b>76,200</b>	<b>66,200</b>	<b>31,138</b>	<b>(35,062)</b>
<b>Total expenditures</b>	<b>3,338,100</b>	<b>3,249,443</b>	<b>3,053,663</b>	<b>(195,780)</b>
<b>Revenues over expenditures</b>	<b>85,300</b>	<b>182,333</b>	<b>421,042</b>	<b>238,709</b>
<b>Other financing uses</b>				
Transfers out	(85,000)	(161,000)	(168,474)	7,474
<b>Total other financing uses</b>	<b>(85,000)</b>	<b>(161,000)</b>	<b>(168,474)</b>	<b>7,474</b>
<b>Net change in fund balance</b>	<b>300</b>	<b>21,333</b>	<b>252,568</b>	<b>231,235</b>
Fund balance, beginning of year	757,163	757,163	757,163	-
<b>Fund balance, end of year</b>	<b>\$ 757,463</b>	<b>\$ 778,496</b>	<b>\$ 1,009,731</b>	<b>\$ 231,235</b>

Concluded

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



**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
AIRPORT FUND**

**FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>(Under) Over Final Budget</u>
<b>Revenues</b>				
Federal revenue	\$ 736,300	\$ 736,300	\$ 699,468	\$ (36,832)
State revenue	19,400	19,400	18,404	(996)
Charges for services	91,300	91,300	115,094	23,794
Interest	200	200	3	(197)
Rents and royalties	53,100	53,100	69,820	16,720
<b>Total revenues</b>	<b>900,300</b>	<b>900,300</b>	<b>902,789</b>	<b>2,489</b>
<b>Expenditures</b>				
Public works	871,700	929,936	906,992	(22,944)
Debt service				
Principal	23,300	22,155	22,112	(43)
Interest	8,300	8,275	8,318	43
<b>Total expenditures</b>	<b>903,300</b>	<b>960,366</b>	<b>937,422</b>	<b>(22,944)</b>
<b>Revenues under expenditures</b>	<b>(3,000)</b>	<b>(60,066)</b>	<b>(34,633)</b>	<b>25,433</b>
<b>Other financing sources</b>				
Transfers in	19,400	19,400	29,400	<b>10,000</b>
<b>Net change in fund balance</b>	<b>16,400</b>	<b>(40,666)</b>	<b>(5,233)</b>	<b>35,433</b>
Fund balances, beginning of year	19,032	19,032	19,032	-
<b>Fund balance (deficit), end of year</b>	<b>\$ 35,432</b>	<b>\$ (21,634)</b>	<b>\$ 13,799</b>	<b>\$ 35,433</b>

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

**CITY OF CHARLEVOIX**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**MARCH 31, 2010**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Marina</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 2,332,961	\$ 142,104	\$ 234,286	\$ 371,417	\$ 3,080,768	\$ 635,977
Investments	1,704,438	259,775	71,996	5,000	2,041,209	190,982
Cash at fiscal agent	-	-	-	110,998	110,998	-
Accounts receivable	777,133	104,275	65,660	720	947,788	92
Interest receivable	48,421	1,825	780	4	51,030	1,629
Due from other funds	-	-	-	7,967	7,967	53,474
Other assets	28	371	8	39,056	39,463	37,537
Inventory	249,403	-	46,952	-	296,355	-
<b>Total current assets</b>	<b>5,112,384</b>	<b>508,350</b>	<b>419,682</b>	<b>535,162</b>	<b>6,575,578</b>	<b>919,691</b>
<b>Noncurrent assets</b>						
Restricted cash	212,000	-	-	-	212,000	-
Restricted investments for replacement	75,000	75,000	75,000	-	225,000	-
Advance to other funds	700,000	-	90,250	-	790,250	-
Capital assets, not being depreciated	189,014	431,128	94,787	-	714,929	83,653
Capital assets, net of accumulated depreciation	5,003,891	4,084,555	3,997,184	12,020,414	25,106,044	1,058,297
<b>Total noncurrent assets</b>	<b>6,179,905</b>	<b>4,590,683</b>	<b>4,257,221</b>	<b>12,020,414</b>	<b>27,048,223</b>	<b>1,141,950</b>
<b>Total assets</b>	<b>11,292,289</b>	<b>5,099,033</b>	<b>4,676,903</b>	<b>12,555,576</b>	<b>33,623,801</b>	<b>2,061,641</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable	552,782	58,192	17,242	178,299	806,515	68,314
Accrued expenses	1,183	3,038	3,346	261	7,828	61,101
Current portion of bond payable	-	-	-	100,000	100,000	-
Due to other funds	-	-	-	-	-	45,550
<b>Total current liabilities</b>	<b>553,965</b>	<b>61,230</b>	<b>20,588</b>	<b>278,560</b>	<b>914,343</b>	<b>174,965</b>
<b>Noncurrent liabilities</b>						
Advance from other funds	-	-	-	700,000	700,000	90,250
Bonds payable, net of current portion	-	-	-	5,350,000	5,350,000	-
Compensated absences	-	-	-	-	-	167,188
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,050,000</b>	<b>6,050,000</b>	<b>257,438</b>
<b>Total liabilities</b>	<b>553,965</b>	<b>61,230</b>	<b>20,588</b>	<b>6,328,560</b>	<b>6,964,343</b>	<b>432,403</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	5,192,905	4,515,683	4,091,971	5,870,414	19,670,973	1,141,950
Restricted for replacement and redemption	75,000	75,000	75,000	-	225,000	-
Unrestricted	5,470,419	447,120	489,344	356,602	6,763,485	487,288
<b>Total net assets</b>	<b>\$ 10,738,324</b>	<b>\$ 5,037,803</b>	<b>\$ 4,656,315</b>	<b>\$ 6,227,016</b>	<b>\$ 26,659,458</b>	<b>\$ 1,629,238</b>

Continued...

**CITY OF CHARLEVOIX**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

**MARCH 31, 2010**

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**Reconciliation of net assets on the statement of net assets for proprietary funds to net assets of business-type activities on the statement of net assets**

**Net assets - total enterprise funds** **\$ 26,659,458**

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

An internal service fund is used by management to charge the costs of certain activities to other funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add - net assets of business-type activities accounted for in business-type activity internal service funds 332,574

Add - net assets allocated to business-type activities from governmental-type activity internal service funds 110,959

**Net assets of business-type activities** **\$ 27,102,991**

Concluded

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

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Major Funds</b>					<b>Internal Service Funds</b>
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Marina</b>	<b>Total</b>	
<b>Operating revenues</b>						
Charges for services	\$ 5,288,787	\$ 992,515	\$ 736,117	\$ 348,046	\$ 7,365,465	\$ 2,507,786
<b>Operating expenses</b>						
Purchased power	3,172,973	-	-	-	3,172,973	-
Personnel services	826,233	427,878	489,005	142,561	1,885,677	2,092,757
Contractual services	110,623	61,404	20,233	45,513	237,773	43,030
Insurance	14,071	19,468	12,004	9,558	55,101	-
Building rental	46,440	21,432	21,432	-	89,304	-
Equipment rental	87,839	75,396	48,868	3,495	215,598	-
Supplies	54,602	74,256	57,400	8,881	195,139	71,160
Utilities	16,982	118,579	53,708	50,909	240,178	11,767
Repair and maintenance	41,243	42,108	42,706	1,922	127,979	74,829
Depreciation	548,601	208,779	204,486	656,954	1,618,820	178,124
Amortization	-	-	-	2,440	2,440	-
Miscellaneous	64,226	13,640	11,133	5,910	94,909	5,971
<b>Total operating expenses</b>	<b>4,983,833</b>	<b>1,062,940</b>	<b>960,975</b>	<b>928,143</b>	<b>7,935,891</b>	<b>2,477,638</b>
<b>Operating income (loss)</b>	<b>304,954</b>	<b>(70,425)</b>	<b>(224,858)</b>	<b>(580,097)</b>	<b>(570,426)</b>	<b>30,148</b>
<b>Nonoperating revenues (expenses)</b>						
Interest revenue	34,813	3,329	3,218	167	41,527	4,578
Gain on sale of capital assets	-	-	-	-	-	11,000
Other revenue	2,200	619,595	-	158,900	780,695	12,078
State revenue	-	-	-	210,189	210,189	-
Interest expense	(41)	-	-	(229,809)	(229,850)	-
<b>Total nonoperating revenues</b>	<b>36,972</b>	<b>622,924</b>	<b>3,218</b>	<b>139,447</b>	<b>802,561</b>	<b>27,656</b>
<b>Income (loss) before transfers</b>	<b>341,926</b>	<b>552,499</b>	<b>(221,640)</b>	<b>(440,650)</b>	<b>232,135</b>	<b>57,804</b>
<b>Transfers</b>						
Transfers in	4,285	44,401	87,057	-	135,743	308,839
Transfers out	(115,300)	(36,000)	(29,500)	-	(180,800)	(46,900)
<b>Total transfers</b>	<b>(111,015)</b>	<b>8,401</b>	<b>57,557</b>	<b>-</b>	<b>(45,057)</b>	<b>261,939</b>
<b>Change in net assets</b>	<b>230,911</b>	<b>560,900</b>	<b>(164,083)</b>	<b>(440,650)</b>	<b>187,078</b>	<b>319,743</b>
Net assets, beginning of year	10,507,413	4,476,903	4,820,398	6,667,666	26,472,380	1,309,495
<b>Net assets, end of year</b>	<b>\$ 10,738,324</b>	<b>\$ 5,037,803</b>	<b>\$ 4,656,315</b>	<b>\$ 6,227,016</b>	<b>\$ 26,659,458</b>	<b>\$ 1,629,238</b>

Continued...

**CITY OF CHARLEVOIX**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS - PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

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**Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds to the statement of activities**

**Change in net assets - all enterprise funds** **\$ 187,078**

An internal service fund is used by management to charge the costs of certain internal service capital improvements to individual enterprise funds. An allocation of the net revenue (expense) attributable to the internal service fund is reported with business-type activities.

Add - change in net assets of internal service funds charged to business-type funds 195,740

**Change in net assets of business-type activities** **\$ 382,818**

Concluded

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

**CITY OF CHARLEVOIX**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

	Business-type Activities - Enterprise Funds					
	Major Funds					Internal Service Funds
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 5,315,439	\$ 1,002,146	\$ 737,001	\$ 347,326	\$ 7,401,912	\$ -
Cash received from interfund services	-	-	-	-	-	2,454,220
Cash payments to employees	(826,233)	(436,986)	(498,607)	(143,825)	(1,905,651)	(2,075,258)
Cash payments to suppliers for goods and services	(3,422,704)	(520,823)	(280,898)	(212,679)	(4,437,104)	(205,861)
<b>Net cash provided by (used in) operating activities</b>	<b>1,066,502</b>	<b>44,337</b>	<b>(42,504)</b>	<b>(9,178)</b>	<b>1,059,157</b>	<b>173,101</b>
<b>Cash flows from noncapital financing activities</b>						
Miscellaneous receipts	2,200	-	-	158,900	161,100	12,078
Repayment of amounts due from other funds	-	-	-	(7,967)	(7,967)	-
Receipt of amounts due from other funds	-	-	-	-	-	45,550
Transfers in	4,285	44,401	87,057	-	135,743	308,839
Transfers out	(115,300)	(36,000)	(29,500)	-	(180,800)	(46,900)
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>(108,815)</b>	<b>8,401</b>	<b>57,557</b>	<b>150,933</b>	<b>108,076</b>	<b>319,567</b>
<b>Cash flows from capital and related financing activities</b>						
Proceeds from sale of capital assets	-	-	-	-	-	11,000
State grants	-	-	-	210,189	210,189	-
Purchase of capital assets	(362,795)	(233,749)	(163,718)	(112,162)	(872,424)	(105,282)
Bond principal payments	-	-	-	(35,000)	(35,000)	-
Bond interest payments	-	-	-	(229,809)	(229,809)	-
<b>Net cash used in capital and related financing activities</b>	<b>(362,795)</b>	<b>(233,749)</b>	<b>(163,718)</b>	<b>(166,782)</b>	<b>(927,044)</b>	<b>(94,282)</b>
<b>Cash flows from investing activities</b>						
Proceeds from matured investments	1,482,129	334,775	206,227	5,000	2,028,131	280,213
Purchase of investments	(1,779,438)	(334,775)	(146,996)	(5,000)	(2,266,209)	(190,982)
Repayment on advance to other funds	-	-	-	-	-	(48,250)
Receipt of amounts from advance to other funds	56,650	-	48,250	-	104,900	-
Investment income	27,055	1,988	4,490	170	33,703	4,663
<b>Net cash (used in) provided by investing activities</b>	<b>(213,604)</b>	<b>1,988</b>	<b>111,971</b>	<b>170</b>	<b>(99,475)</b>	<b>45,644</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>381,288</b>	<b>(179,023)</b>	<b>(36,694)</b>	<b>(24,857)</b>	<b>140,714</b>	<b>444,030</b>
Cash and cash equivalents, beginning of year	2,163,673	321,127	270,980	507,272	3,263,052	216,255
<b>Cash and cash equivalents, end of year (including \$110,998 for cash at fiscal agent in the Marina Fund.)</b>	<b>\$ 2,544,961</b>	<b>\$ 142,104</b>	<b>\$ 234,286</b>	<b>\$ 482,415</b>	<b>\$ 3,403,766</b>	<b>\$ 660,285</b>

Continued...

**Noncash capital and related financing activity**

The City capitalized \$619,585 in the Sewer Fund related to donated assets from Charlevoix Township.

**CITY OF CHARLEVOIX**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Internal Service Funds</b>
	<b>Major Funds</b>				<b>Total</b>	
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Marina</b>		
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 304,954	\$ (70,425)	\$ (224,858)	\$ (580,097)	\$ (570,426)	\$ 30,148
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	548,601	208,779	204,486	656,954	1,618,820	178,124
Amortization	-	-	-	2,420	2,420	-
Changes in assets and liabilities						
Accounts receivable	26,652	9,631	884	(720)	36,447	(92)
Due from other funds	-	-	-	-	-	(53,474)
Inventory	(20,345)	-	(11,750)	-	(32,095)	-
Other assets	(28)	(371)	(8)	-	(407)	(5,451)
Accounts payable	228,198	(94,169)	(1,656)	(86,471)	45,902	6,347
Accrued expenses	(21,530)	(9,108)	(9,602)	(1,264)	(41,504)	38,953
Accrued compensated absences	-	-	-	-	-	(21,454)
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 1,066,502</u></b>	<b><u>\$ 44,337</u></b>	<b><u>\$ (42,504)</u></b>	<b><u>\$ (9,178)</u></b>	<b><u>\$ 1,059,157</u></b>	<b><u>\$ 173,101</u></b>

Concluded

The accompanying notes are an integral part of these financial statements

**CITY OF CHARLEVOIX**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**CURRENT TAX COLLECTION FUND**

**MARCH 31, 2010**

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<b>Assets</b>	
Cash and cash equivalents	<u>\$    93,302</u>
<b>Liabilities</b>	
Undistributed receipts	<u>\$    93,302</u>

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



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The **City of Charlevoix** (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 government 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.

*Discretely presented component unit.* The Charlevoix 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. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer at the City of Charlevoix, 210 State Street, Charlevoix, MI 49720.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government 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 certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital 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

## NOTES TO THE FINANCIAL STATEMENTS

---

**Fund Financial Statements.** The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

The *Airport Fund* accounts for revenue sources that are legally restricted to expenditures for the Airport.

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.

Additionally, the City reports the following fund types:

*Special Revenue Funds.* These funds account for revenue sources that are accumulated for specific purposes not including major capital projects.

*Capital Projects Funds.* These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Permanent Fund.* The Cemetery Perpetual Care Fund is the City's Permanent Fund. This fund accounts for the perpetual care portion of the fee collected from the sale of cemetery lots. These monies are accumulating until such a time when they become adequate to be used to support cemetery operations.

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

---

*Agency Fund.* This fund accounts for assets held for other governments in an agency capacity, specifically tax collections.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The agency fund also uses the accrual basis of accounting but does not have a measurement focus.

Proprietary fund operating revenues such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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, sewage disposal, water and marina enterprise funds and of the City's internal service funds are charges to customers 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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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***Governmental Fund Financial Statements.*** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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 function, 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.

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

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.

### **D. Assets, liabilities and net assets or equity**

#### ***1. 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

## NOTES TO THE FINANCIAL STATEMENTS

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### **2. *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, 2010, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$26,200. The receivables for Electric Utility, Sewage Disposal and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

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

### **3. *Restricted assets***

Certain resources have been set aside to fund capital asset replacements.

### **4. *Inventory***

Inventory held by the enterprise funds are 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 value of such inventories has been treated as an expenditure at the time of purchase.

### **5. *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 \$2,000 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 assets lives are not capitalized.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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.

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

	<u>Years</u>
Buildings	40
Land improvements	20-50
System infrastructure	30-50
Equipment	5-10
Vehicles	5-20
Public domain infrastructure	30-50

### **6. *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 as a result of employee resignations or retirements.

### **7. *Long-term obligations***

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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.

### **8. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. 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 the City's 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 the governing Board 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.

### **B. Excess of expenditures over appropriations**

For the year ended March 31, 2010, the General Fund budgeted \$161,000 in transfers to other funds. Actual transfers to other funds were \$168,474, a variance of \$7,474.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 4,979,583	\$ 229,315	\$ 5,208,898
Cash at fiscal agent	110,998	117,526	228,524
Investments	<u>3,542,859</u>	<u>25,000</u>	3,567,859
<b>Total Statement of Net Assets</b>	<b><u>\$ 8,633,440</u></b>	<b><u>\$ 371,841</u></b>	
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			<u>93,302</u>
<b>Total deposits and investments</b>			<b><u>\$ 9,098,583</u></b>

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts and certificate of deposits due within one year)	\$ 8,870,059
Cash with fiscal agent	<u>228,524</u>
<b>Total deposits and investments</b>	<b><u>\$ 9,098,583</u></b>

#### Investment and deposit risk

*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.

*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.

*Custodial credit risk - deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, substantially all of the City's bank balance of approximately \$8,857,000 was insured and collateralized.



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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 or 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.

### **B. Receivables**

Receivables in the governmental activities consist of 17 percent due from other governments, 2 percent interest receivable, 65 percent taxes receivable and 16 percent accounts receivable. Receivables in the business-type activities consist of 5 percent interest receivable and 95 percent due from customers. Receivables in the component unit consist of 1 percent interest receivable and 99 percent taxes receivable.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

Capital assets activity for the year ended March 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
Capital assets not being depreciated					
Land	\$ 17,892,863	\$ -	\$ -	\$ -	\$ 17,892,863
Construction-in-process	<u>19,095</u>	<u>886,576</u>	<u>-</u>	<u>(19,095)</u>	<u>886,576</u>
Total capital assets not being depreciated	<u>17,911,958</u>	<u>886,576</u>	<u>-</u>	<u>(19,095)</u>	<u>18,779,439</u>
Capital assets being depreciated					
Land improvements	5,466,430	104,787	-	-	5,571,217
Infrastructure	1,092,483	18,455	-	-	1,110,938
Buildings and improvements	9,469,811	254,956	(2,110)	19,095	9,741,752
Machinery and equipment	2,971,051	114,611	(296,768)	-	2,788,894
Vehicles	<u>2,738,338</u>	<u>54,175</u>	<u>(341,362)</u>	<u>-</u>	<u>2,451,151</u>
Total capital assets being depreciated	<u>21,738,113</u>	<u>546,984</u>	<u>(640,240)</u>	<u>19,095</u>	<u>21,663,952</u>
Less accumulated depreciation for					
Land improvements	(1,755,954)	(235,498)	-	-	(1,991,452)
Infrastructure	(74,752)	(31,405)	-	-	(106,157)
Buildings and improvements	(3,413,921)	(239,856)	2,110	-	(3,651,667)
Machinery and equipment	(1,921,277)	(217,904)	296,768	-	(1,842,413)
Vehicles	<u>(1,684,674)</u>	<u>(163,404)</u>	<u>341,362</u>	<u>-</u>	<u>(1,506,716)</u>
Total accumulated depreciation	<u>(8,850,578)</u>	<u>(888,067)</u>	<u>640,240</u>	<u>-</u>	<u>(9,098,405)</u>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net of depreciation	\$ 12,887,535	\$ (341,083)	\$ -	\$ 19,095	\$ 12,565,547
<b>Governmental activities capital assets, net of depreciation</b>	<b><u>\$ 30,799,493</u></b>	<b><u>\$ 545,493</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,344,986</u></b>
<b>Business-type activities</b>					
Capital assets not being depreciated					
Land	\$ 609,468	\$ -	\$ -	\$ -	\$ 609,468
Construction-in-progress	<u>32,040</u>	<u>168,461</u>	<u>-</u>	<u>(32,040)</u>	<u>168,461</u>
Total capital assets not being depreciated	<u>641,508</u>	<u>168,461</u>	<u>-</u>	<u>(32,040)</u>	<u>777,929</u>
Capital assets being depreciated					
Land improvements	13,973,771	164,031	-	32,040	14,169,842
Buildings and improvements	6,823,978	63,204	-	-	6,887,182
System improvements	21,407,247	959,211	-	-	22,366,458
Equipment	<u>1,507,447</u>	<u>149,256</u>	<u>-</u>	<u>-</u>	<u>1,656,703</u>
Total capital assets being depreciated	<u>43,712,443</u>	<u>1,335,702</u>	<u>-</u>	<u>32,040</u>	<u>45,080,185</u>
Less accumulated depreciation for					
Land improvements	(1,017,242)	(677,525)	-	-	(1,694,767)
Buildings and improvements	(4,262,440)	(193,745)	-	-	(4,456,185)
System improvements	(11,990,042)	(667,231)	-	-	(12,657,273)
Equipment	<u>(1,035,484)</u>	<u>(88,338)</u>	<u>-</u>	<u>-</u>	<u>(1,123,822)</u>
Total accumulated depreciation	<u>(18,305,208)</u>	<u>(1,626,839)</u>	<u>-</u>	<u>-</u>	<u>(19,932,047)</u>
Total capital assets being depreciated, net of depreciation	<u>25,407,235</u>	<u>(291,137)</u>	<u>-</u>	<u>32,040</u>	<u>25,148,138</u>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities capital assets, net of depreciation</b>	<b><u>\$ 26,048,743</u></b>	<b><u>\$ (122,676)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 25,926,067</u></b>
<b><u>Component Unit</u></b>					
Capital assets not being depreciated – land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated					
Land improvements	2,315,044	12,252	-	-	2,327,296
Buildings and improvements	3,942,051	826	-	-	3,942,877
Machinery and equipment	<u>68,481</u>	<u>31,873</u>	<u>-</u>	<u>-</u>	<u>100,354</u>
Total capital assets being depreciated	<u>6,325,576</u>	<u>44,951</u>	<u>-</u>	<u>-</u>	<u>6,370,527</u>
Less accumulated depreciation for					
Land improvements	(943,986)	(81,826)	-	-	(1,025,812)
Buildings and improvements	(1,462,585)	(103,480)	-	-	(1,566,065)
Machinery and equipment	<u>(54,877)</u>	<u>(6,782)</u>	<u>-</u>	<u>-</u>	<u>(61,659)</u>
Total accumulated depreciation	<u>(2,461,448)</u>	<u>(192,088)</u>	<u>-</u>	<u>-</u>	<u>(2,653,536)</u>
Total capital assets being depreciated, net of depreciation	<u>3,864,128</u>	<u>(147,137)</u>	<u>-</u>	<u>-</u>	<u>3,716,991</u>
<b>Component unit capital assets, net of depreciation</b>	<b><u>\$ 4,787,199</u></b>	<b><u>\$ (147,137)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,640,062</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

<b>Governmental activities</b>	
General government	\$ 144,209
Public safety	77,345
Public works, including depreciation of general infrastructure assets	386,422
Recreation and culture	109,986
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>170,105</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 888,067</u></b>
<b>Business-type activities</b>	
Electric utility	\$ 548,601
Sewage disposal	208,779
Water utility	204,486
Marina	656,954
Capital assets held by the business-type activity internal service funds are charged to the various functions based on their usage of the assets	<u>8,019</u>
<b>Total depreciation expense – business-type activities</b>	<b><u>\$ 1,626,839</u></b>

### D. Payables

Governmental activities, business-type activities and component unit accounts payable are composed entirely of amounts due to vendors.

### E. Interfund receivables, payables and transfers

In prior years, the Electric Utility Enterprise Fund advanced a total of \$655,000 to the City Hall Improvements Fund for the purpose of assisting in the City Hall renovation project. The advance was repaid during fiscal 2010, with interest charged at 1%.

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. The advance is to be repaid over eight years with interest charged at 1%. No repayments were made on this advance during the year ended March 31, 2010.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

The Water Utility Enterprise Fund advanced \$138,500 to Motor Pool Internal Service Fund to cover a large portion of the groomer that was purchased during the prior year. The advance is to be repaid over ten years with interest charged at 1%. During the year ended March 31, 2010, \$48,250 of the advance was repaid. The balance of the advance as of March 31, 2010, is \$90,250.

Interfund receivables and payables totaling \$99,024 are established to cover temporary cash deficits.

<u>Transfers in</u>	<b>Transfers out</b>			
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Subtotal Transfers In</b>
Airport	\$ 10,000	\$ 19,400	\$ -	\$ 29,400
Nonmajor Governmental Funds	95,000	331,443	32,500	458,943
Electric Utility	-	4,285	-	4,285
Sewer Disposal Utility	-	87,057	-	87,057
Water Utility	-	44,401	-	44,401
Internal Service	63,474	96,365	14,400	174,239
<b>Subtotal transfers out</b>	<b><u>\$ 168,474</u></b>	<b><u>\$ 582,951</u></b>	<b><u>\$ 46,900</u></b>	<b><u>\$ 798,325</u></b>

<u>Transfers in</u>	<b>Transfers out</b>			
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Total Transfers In</b>
Airport	\$ -	\$ -	\$ -	\$ 29,400
Nonmajor Governmental Funds	28,700	7,500	10,000	505,143
Electric Utility	-	-	-	4,285
Sewer Disposal Utility	-	-	-	87,057
Water Utility	-	-	-	44,401
Internal Service	86,600	22,000	26,000	308,839
<b>Subtotal transfers out</b>	<b><u>\$ 115,300</u></b>	<b><u>\$ 29,500</u></b>	<b><u>\$ 36,000</u></b>	<b><u>\$ 979,125</u></b>

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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### F. 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, and the DDA discretely presented component unit.

**Installment purchases.** The primary government's and component unit's Public Act 99 installment purchase agreements are also general obligations of the City. The original amount of the primary government's installment purchase agreement was \$180,000 and the component unit's installment purchase agreement was \$1,500,000.

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.

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 15 to 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental Activities</b>		
General government – installment purchase	5.625%	\$ 90,369
General government – loan (MDOT)	3.9%	<u>54,767</u>
		<b><u>\$ 145,136</u></b>
<b>Business-Type Activities</b>		
Marina – Limited tax general obligation bonds	4.0% - 4.2%	<b><u>\$ 5,450,000</u></b>
<b>Component Unit – Downtown Development Authority</b>		
General government – general obligation refunding bond	2.3% - 3.5%	\$ 1,085,000
General government – installment purchase	2.780%	<u>228,696</u>
		<b><u>\$ 1,313,696</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds, installment purchase agreements, and loans are as follows:

Year Ending March 31,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 23,212	\$ 7,218	\$ 100,000	\$ 219,995	\$ 374,347	\$ 39,430
2012	24,342	6,089	160,000	214,795	379,349	28,451
2013	25,530	4,901	180,000	207,995	275,000	18,912
2014	26,776	3,654	210,000	200,195	285,000	9,976
2015	28,084	2,343	240,000	191,195	-	-
2016-2020	17,192	967	1,480,000	792,375	-	-
2021-2025	-	-	2,080,000	436,065	-	-
2026-2027	-	-	1,000,000	42,000	-	-
<b>Total</b>	<b><u>\$ 145,136</u></b>	<b><u>\$ 25,172</u></b>	<b><u>\$5,450,000</u></b>	<b><u>\$2,304,615</u></b>	<b><u>\$1,313,696</u></b>	<b><u>\$ 96,769</u></b>

*Changes in long-term debt.* Long-term debt activity for the year ended March 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
Installment purchase agreements	\$ 102,750	\$ -	\$ (12,381)	\$ 90,369	\$ 13,080
Loans	64,498	-	(9,731)	54,767	10,132
Compensated absences – sick leave	115,092	58,717	(57,991)	115,818	-
Compensated absences – vacation	188,642	115,174	(136,628)	167,188	-
<b>Total governmental activities</b>	<b><u>470,982</u></b>	<b><u>173,891</u></b>	<b><u>(216,731)</u></b>	<b><u>428,142</u></b>	<b><u>23,212</u></b>
<b>Business-type activities</b>					
General obligation bonds	5,485,000	-	(35,000)	5,450,000	100,000
<b>Total primary government</b>	<b><u>\$ 5,955,982</u></b>	<b><u>\$ 173,891</u></b>	<b><u>\$ (251,731)</u></b>	<b><u>\$ 5,878,142</u></b>	<b><u>\$ 123,212</u></b>



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Due Ending Balance</b>	<b>Within One Year</b>
<b><u>Component unit</u></b>					
General obligation bonds	\$ 1,335,000	\$ -	\$ (250,000)	\$ 1,085,000	\$ 260,000
Installment purchase agreements	<u>343,043</u>	<u>-</u>	<u>(114,347)</u>	<u>228,696</u>	<u>114,347</u>
<b>Total component unit</b>	<b><u>\$ 1,678,043</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (364,347)</u></b>	<b><u>\$ 1,313,696</u></b>	<b><u>\$ 374,347</u></b>

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

### G. 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 \$52,000 as of March 31, 2010. Projected operating lease proceeds through the year ended 2028 are as follows:

<b><u>Year Ended March 31,</u></b>	<b><u>Amount</u></b>
2011	\$ 21,355
2012	22,196
2013	23,066
2014	23,966
2015	24,898
2016-2020	139,650
2021-2025	180,871
2026-2028	<u>135,767</u>
	<b><u>\$ 571,769</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### IV. OTHER INFORMATION

#### A. 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, 2010, the City carried insurance through various commercial carriers, including the Michigan Municipal League, 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.

#### B. 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 August 31; 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 2009 levy were assessed and equalized at \$249,346,093 (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 2009-10 was 9.05 mills, with an additional 2.1028 mills levied for infrastructure improvements and an additional .1 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. Property taxes are recognized in the fiscal year in which they are levied.

#### C. Defined benefit pension plan

##### Plan Description

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America (“CWA”) is 14.09% of annual covered payroll, the Police and Fire (“POLC”) rate is 15.05% and the non-union rate is 17.63% of covered payroll. Communication Workers of America 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.

### **Annual Pension Cost**

For the year ended March 31, 2010, the City’s annual pension cost of \$356,180 for MERS was equal to the City’s required contributions of \$332,180 plus \$24,000 of voluntary additional contributions. The required contribution was determined as part of the December 31, 2008, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, 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, 2009, the date of the last actuarial valuation, was 28 years.

### **Schedule of Employer Contributions**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
3/31/08	\$ 302,536	100%	\$ -
3/31/09	340,778	100%	-
3/31/10	356,180	100%	-

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Accrued Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/09	\$ 7,891,679	\$ 11,267,031	\$ 3,375,352	70%	\$ 2,320,921	145%

The schedule of funding progress, presented as required supplementary information 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.

#### **D. 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. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2010.

The City Manager’s base payroll during the year ended March 31, 2010, was \$80,580. The current year calculation resulted in a benefit of \$17,405 contributed to the plan. There was no increase to compensation during the year ended March 31, 2010.

#### **E. 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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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, 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:

<u>Year Ended</u> <u>December 31,</u>	<u>Campbell No. 3</u>		<u>Belle River</u>		<u>Combustion</u> <u>Turbine No. 1</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 141,763	\$ 39,255	\$ 301,373	\$ 152,327	\$ 50,976	\$ 69,646	\$ 494,112	\$ 261,228
2012	148,087	33,313	317,130	136,567	53,100	67,352	518,317	237,232
2013	154,411	26,996	333,713	119,928	55,932	64,564	544,056	211,488
2014	-	23,715	351,285	102,408	58,764	61,628	410,049	187,751
2015	-	-	369,683	83,966	62,068	58,543	431,751	166,224
2016-2020	474,300	-	1,229,663	131,319	362,024	240,354	2,065,987	371,673
2021-2025	-	-	-	-	467,752	134,778	467,752	134,778
2026-2027	-	-	-	-	223,256	17,730	223,256	17,730
<b>Total</b>	<b><u>\$ 918,561</u></b>	<b><u>\$ 146,994</u></b>	<b><u>\$2,902,847</u></b>	<b><u>\$ 726,515</u></b>	<b><u>\$1,333,872</u></b>	<b><u>\$ 714,595</u></b>	<b><u>\$5,155,280</u></b>	<b><u>\$1,588,104</u></b>

During the year ended March 31, 2010, the City purchased power from the Campbell No. 3, Belle River, and Combustion Turbine No. 1 Units.

The City has a deposit of approximately \$212,000 in trust as security for annual debt payments. The City approved purchases of \$5,784,446 in power through MPPA for years 2011 through 2015. The purchased power will be billed to the City over the three year period.

### F. Commitments

The City began the Park Avenue Road Project during fiscal year 2010. The project is expected to cost approximately \$876,000. The City has expended approximately \$415,000 on this project as of March 31, 2010. The project is expected to be completed in fiscal 2011. The City also began a capital project at the Airport which included airport taxi-way lighting, signs and master plan improvements. The project is expected to cost \$960,000 which will be funded primarily by federal revenues. The City has expended approximately \$618,000 on the Airport project during the City's fiscal year ending March 31, 2010.

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**REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF CHARLEVOIX

## REQUIRED SUPPLEMENTARY INFORMATION

### DEFINED BENEFIT PENSION PLAN

#### Six-Year Trend Information Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
3/31/05	\$ 211,482	100%	\$ -
3/31/06	217,443	100%	-
3/31/07	256,120	100%	-
3/31/08	302,536	100%	-
3/31/09	340,778	100%	-
3/31/10	356,180	100%	-

#### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$6,023,710	\$8,423,342	\$2,399,632	72%	\$1,883,018	127%
12/31/05	6,372,687	8,733,885	2,361,198	73%	1,716,207	138%
12/31/06	6,813,506	9,464,744	2,651,238	72%	1,860,553	142%
12/31/07	7,285,089	10,111,141	2,826,322	72%	2,079,727	136%
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%

## **SUPPLEMENTARY INFORMATION**



**CITY OF CHARLEVOIX**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**MARCH 31, 2010**

	Special Revenue Funds		Capital Projects Funds			
	Major Streets	Local Streets	City Hall Improvements	Fire Truck and Ambulance	Industrial Park	Infrastructure Improvements
	<b>ASSETS</b>					
Cash and cash equivalents	\$ 66,529	\$ 28,696	\$ -	\$ 36,556	\$ 59,181	\$ 156,985
Investments	160	1,044	-	-	65,000	250,000
Accounts receivable	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	23,879
Interest receivable	-	-	-	-	47	1,958
Due from other governments	34,414	11,495	-	-	-	-
<b>Total assets</b>	<b>\$ 101,103</b>	<b>\$ 41,235</b>	<b>\$ -</b>	<b>\$ 36,556</b>	<b>\$ 124,228</b>	<b>\$ 432,822</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 7,910	\$ 720	\$ -	\$ -	\$ -	\$ -
Accrued expenses	177	1,140	-	-	-	-
<b>Total liabilities</b>	<b>8,087</b>	<b>1,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>						
Reserved for:						
Perpetual care	-	-	-	-	-	-
Downtown parking	-	-	-	-	-	-
Unreserved						
Designated for subsequent year's expenditures	-	-	-	-	20,800	-
Undesignated - Special Revenue Funds	93,016	39,375	-	-	-	-
Undesignated - Capital Project Funds	-	-	-	36,556	103,428	432,822
<b>Total fund balances</b>	<b>93,016</b>	<b>39,375</b>	<b>-</b>	<b>36,556</b>	<b>124,228</b>	<b>432,822</b>
<b>Total liabilities and fund balances</b>	<b>\$ 101,103</b>	<b>\$ 41,235</b>	<b>\$ -</b>	<b>\$ 36,556</b>	<b>\$ 124,228</b>	<b>\$ 432,822</b>

<u>Street Improvement</u>	<u>Mt. McSauba Improvements</u>	<u>Downtown Parking</u>	<u>Permanent Fund Cemetery Care</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 1	\$ 14,710	\$ 59,414	\$ 113,147	\$ 535,219
-	-	60,000	252,008	628,212
880	516	-	-	1,396
221,459	-	-	-	245,338
-	-	324	1,545	3,874
-	-	-	-	45,909
<b><u>\$ 222,340</u></b>	<b><u>\$ 15,226</u></b>	<b><u>\$ 119,738</u></b>	<b><u>\$ 366,700</u></b>	<b><u>\$ 1,459,948</u></b>
\$ -	\$ -	\$ 4,866	\$ -	13,496
-	-	-	-	1,317
-	-	<b>4,866</b>	-	<b>14,813</b>
-	-	-	366,700	366,700
-	-	114,872	-	114,872
6,550	-	-	-	27,350
-	-	-	-	132,391
215,790	15,226	-	-	803,822
<b>222,340</b>	<b>15,226</b>	<b>114,872</b>	<b>366,700</b>	<b>1,445,135</b>
<b><u>\$ 222,340</u></b>	<b><u>\$ 15,226</u></b>	<b><u>\$ 119,738</u></b>	<b><u>\$ 366,700</u></b>	<b><u>\$ 1,459,948</u></b>

**CITY OF CHARLEVOIX**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

	Special Revenue Funds			Capital Projects Funds		
	Major Streets	Local Streets	City Hall Improvements	Fire Truck and Ambulance	Industrial Park	Infrastructure Improvements
<b>Revenues</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 484,107
State revenue	226,880	73,846	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	8	2	2	3	1,455	3,323
Rents and royalties	-	-	-	-	-	-
Other revenue	17,250	-	-	-	1,370	-
<b>Total revenues</b>	<b>244,138</b>	<b>73,848</b>	<b>2</b>	<b>3</b>	<b>2,825</b>	<b>487,430</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	-	-	-	-	3,500	6,585
Public works	517,955	126,630	-	-	-	-
Other expenditures	-	-	329	-	-	-
<b>Total current expenditures</b>	<b>517,955</b>	<b>126,630</b>	<b>329</b>	<b>-</b>	<b>3,500</b>	<b>6,585</b>
<b>Revenues (under) over expenditures</b>	<b>(273,817)</b>	<b>(52,782)</b>	<b>(327)</b>	<b>3</b>	<b>(675)</b>	<b>480,845</b>
<b>Other financing sources (uses)</b>						
Transfers in	291,443	75,000	106,200	32,500	-	-
Transfers out	-	-	(52,419)	-	(19,400)	(461,108)
<b>Total other financing sources (uses)</b>	<b>291,443</b>	<b>75,000</b>	<b>53,781</b>	<b>32,500</b>	<b>(19,400)</b>	<b>(461,108)</b>
<b>Net change in fund balances</b>	<b>17,626</b>	<b>22,218</b>	<b>53,454</b>	<b>32,503</b>	<b>(20,075)</b>	<b>19,737</b>
Fund balances, beginning of year	75,390	17,157	(53,454)	4,053	144,303	413,085
<b>Fund balances, end of year</b>	<b>\$ 93,016</b>	<b>\$ 39,375</b>	<b>\$ -</b>	<b>\$ 36,556</b>	<b>\$ 124,228</b>	<b>\$ 432,822</b>

			Permanent Fund	Total
Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care	Nonmajor Governmental Funds
\$ 222,339	\$ -	\$ -	\$ -	\$ 706,446
-	-	-	-	300,726
-	-	-	2,850	2,850
1	12	1,918	4,262	10,986
-	11,469	-	-	11,469
-	15,486	-	-	34,106
<b>222,340</b>	<b>26,967</b>	<b>1,918</b>	<b>7,112</b>	<b>1,066,583</b>
-	-	10,888	-	20,973
-	-	-	-	644,585
-	-	-	-	329
-	-	<b>10,888</b>	-	<b>665,887</b>
<b>222,340</b>	<b>26,967</b>	<b>(8,970)</b>	<b>7,112</b>	<b>400,696</b>
-	-	-	-	505,143
-	(43,900)	(6,124)	-	(582,951)
-	<b>(43,900)</b>	<b>(6,124)</b>	-	<b>(77,808)</b>
<b>222,340</b>	<b>(16,933)</b>	<b>(15,094)</b>	<b>7,112</b>	<b>322,888</b>
-	32,159	129,966	359,588	1,122,247
<b>\$ 222,340</b>	<b>\$ 15,226</b>	<b>\$ 114,872</b>	<b>\$ 366,700</b>	<b>\$ 1,445,135</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**

**MARCH 31, 2010**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Employee Fringe Benefits</u>	<u>Motor Vehicle</u>	<u>DPW Site</u>	<u>Total</u>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 181,417	\$ 227,080	\$ 227,480	\$ 635,977
Investments	45,982	145,000	-	190,982
Accounts receivable	92	-	-	92
Interest receivable	847	782	-	1,629
Due from other funds	53,474	-	-	53,474
Other assets	37,527	10	-	37,537
<b>Total current assets</b>	<b>319,339</b>	<b>372,872</b>	<b>227,480</b>	<b>919,691</b>
<b>Noncurrent assets</b>				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets, net of accumulated depreciation	-	1,016,203	42,094	1,058,297
<b>Total noncurrent assets</b>	<b>-</b>	<b>1,036,856</b>	<b>105,094</b>	<b>1,141,950</b>
<b>Total assets</b>	<b>319,339</b>	<b>1,409,728</b>	<b>332,574</b>	<b>2,061,641</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	46,468	21,846	-	68,314
Accrued expenses	60,133	968	-	61,101
Due to other funds	45,550	-	-	45,550
<b>Total current liabilities</b>	<b>152,151</b>	<b>22,814</b>	<b>-</b>	<b>174,965</b>
<b>Noncurrent liabilities</b>				
Advance from other funds	-	90,250	-	90,250
Compensated absences	167,188	-	-	167,188
<b>Total noncurrent liabilities</b>	<b>167,188</b>	<b>90,250</b>	<b>-</b>	<b>257,438</b>
<b>Total liabilities</b>	<b>319,339</b>	<b>113,064</b>	<b>-</b>	<b>432,403</b>
<b>Net assets</b>				
Invested in capital assets	-	1,036,856	105,094	1,141,950
Unrestricted	-	259,808	227,480	487,288
<b>Total net assets</b>	<b>\$ -</b>	<b>\$ 1,296,664</b>	<b>\$ 332,574</b>	<b>\$ 1,629,238</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Governmental Activities</u>		<u>Business-type</u>	<u>Total</u>
	<u>Employee Fringe Benefits</u>	<u>Motor Vehicle</u>	<u>DPW Site</u>	
<b>Operating revenues</b>				
Charges for services	<b>\$ 1,897,913</b>	<b>\$ 609,873</b>	<b>\$ -</b>	<b>\$ 2,507,786</b>
<b>Operating expenses</b>				
Personal services	1,951,763	140,994	-	2,092,757
Contractual services	16,214	24,240	2,576	43,030
Supplies	-	71,160	-	71,160
Utilities	-	11,767	-	11,767
Repairs and maintenance	-	74,829	-	74,829
Depreciation	-	170,105	8,019	178,124
Miscellaneous	4,664	1,307	-	5,971
<b>Total operating expenses</b>	<b>1,972,641</b>	<b>494,402</b>	<b>10,595</b>	<b>2,477,638</b>
<b>Operating (loss) income</b>	<b>(74,728)</b>	<b>115,471</b>	<b>(10,595)</b>	<b>30,148</b>
<b>Nonoperating revenues</b>				
Interest revenue	1,356	3,212	10	4,578
Gain on sale of capital assets	-	11,000	-	11,000
Other revenue	8,521	3,557	-	12,078
<b>Total nonoperating revenues</b>	<b>9,877</b>	<b>17,769</b>	<b>10</b>	<b>27,656</b>
<b>(Loss) income before transfers</b>	<b>(64,851)</b>	<b>133,240</b>	<b>(10,585)</b>	<b>57,804</b>
<b>Transfers</b>				
Transfers in	53,474	53,900	201,465	308,839
Transfers out	-	(46,900)	-	(46,900)
<b>Total transfers</b>	<b>53,474</b>	<b>7,000</b>	<b>201,465</b>	<b>261,939</b>
<b>Change in net assets</b>	<b>(11,377)</b>	<b>140,240</b>	<b>190,880</b>	<b>319,743</b>
Net assets, beginning of year	11,377	1,156,424	141,694	1,309,495
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ 1,296,664</b>	<b>\$ 332,574</b>	<b>\$ 1,629,238</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Governmental Activities</u>		<u>Business-type</u>	<u>Total</u>
	<u>Employee Fringe Benefits</u>	<u>Motor Vehicle</u>	<u>DPW Site</u>	
<b>Cash flows from operating activities</b>				
Cash received from interfund services	\$ 1,844,347	\$ 609,873	\$ -	\$ 2,454,220
Cash payments to employees	(1,931,842)	(143,416)	-	(2,075,258)
Cash payments to suppliers for goods and services	(28,702)	(174,583)	(2,576)	(205,861)
<b>Net cash (used in) provided by operating activities</b>	<b>(116,197)</b>	<b>291,874</b>	<b>(2,576)</b>	<b>173,101</b>
<b>Cash flows from noncapital financing activities</b>				
Miscellaneous income	8,521	3,557	-	12,078
Repayment of amount due to other funds	45,550	-	-	45,550
Transfers in from other funds	53,474	53,900	201,465	308,839
Transfers out to other funds	-	(46,900)	-	(46,900)
<b>Net cash provided by noncapital financing activities</b>	<b>107,545</b>	<b>10,557</b>	<b>201,465</b>	<b>319,567</b>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from sale of capital assets	-	11,000	-	11,000
Purchase of capital assets	-	(117,436)	12,154	(105,282)
<b>Net cash used in capital and related financing activities</b>	<b>-</b>	<b>(106,436)</b>	<b>12,154</b>	<b>(94,282)</b>
<b>Cash flows from investing activities</b>				
Proceeds from matured investments	100,982	179,231	-	280,213
Purchase of investments	(45,982)	(145,000)	-	(190,982)
Advance from other funds	-	(48,250)	-	(48,250)
Investment income	561	4,092	10	4,663
<b>Net cash provided by (used in) investing activities</b>	<b>55,561</b>	<b>(9,927)</b>	<b>10</b>	<b>45,644</b>
<b>Net increase in cash and cash equivalents</b>	<b>46,909</b>	<b>186,068</b>	<b>211,053</b>	<b>444,030</b>
Cash and cash equivalents, beginning of year	134,508	41,012	40,735	216,255
<b>Cash and cash equivalents, end of year</b>	<b>\$ 181,417</b>	<b>\$ 227,080</b>	<b>\$ 251,788</b>	<b>\$ 660,285</b>
<b>Reconciliation of operating (loss) income to net cash (used in) provided by operating activities</b>				
Operating (loss) income	\$ (74,728)	\$ 115,471	\$ (10,595)	\$ 30,148
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities				
Depreciation	-	170,105	8,019	178,124
Changes in assets and liabilities				
Accounts receivable	(92)	-	-	(92)
Due from other funds	(53,474)	-	-	(53,474)
Other assets	(5,441)	(10)	-	(5,451)
Accounts payable	(2,383)	8,730	-	6,347
Accrued liabilities	41,375	(2,422)	-	38,953
Accrued compensated absences	(21,454)	-	-	(21,454)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (116,197)</b>	<b>\$ 291,874</b>	<b>\$ (2,576)</b>	<b>\$ 173,101</b>

**CITY OF CHARLEVOIX**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**CURRENT TAX COLLECTION FUND**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash	\$ 56,021	\$ 11,459,058	\$ (11,421,777)	\$ 93,302
Account receivable	19,340	-	(19,340)	-
<b>Total assets</b>	<u>\$ 75,361</u>	<u>\$ 11,459,058</u>	<u>\$ (11,441,117)</u>	<u>\$ 93,302</u>
<b>Liabilities</b>				
Undistributed receipts	<u>\$ 75,361</u>	<u>\$ 23,049,720</u>	<u>\$ (23,031,779)</u>	<u>\$ 93,302</u>



**CITY OF CHARLEVOIX**

**BALANCE SHEET AND STATEMENT OF NET ASSETS  
COMPONENT UNIT**

**MARCH 31, 2010**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 229,315	\$ -	\$ 229,315
Cash with fiscal agent	117,526	-	117,526
Investments	25,000	-	25,000
Accounts receivable	-	26,350	26,350
Taxes receivable	26,051	(26,051)	-
Interest receivable	299	(299)	-
Other assets	3	17,833	17,836
Capital assets not being depreciated	-	923,071	923,071
Capital assets, net of depreciation	-	3,716,991	3,716,991
<b>Total assets</b>	<b>\$ 398,194</b>	<b>4,657,895</b>	<b>5,056,089</b>
<b>Liabilities</b>			
Accounts payable	\$ 1,761	-	1,761
Accrued liabilities	511	10,349	10,860
Noncurrent liabilities			
Long-term debt due within one year	-	374,347	374,347
Long-term debt due in more than one year	-	939,349	939,349
<b>Total liabilities</b>	<b>2,272</b>	<b>1,324,045</b>	<b>1,326,317</b>
<b>Fund balance</b>			
Restricted	395,922	(395,922)	-
<b>Total liabilities and fund balance</b>	<b>\$ 398,194</b>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		3,326,366	3,326,366
Unrestricted		403,406	403,406
<b>Total net assets</b>		<b>\$ 3,729,772</b>	<b>\$ 3,729,772</b>

**CITY OF CHARLEVOIX**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES**  
**COMPONENT UNIT**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Property taxes	\$ 809,460	\$ -	\$ 809,460
Rents	23,018	-	23,018
Federal revenue	25,321	-	25,321
Gain on sale of capital asset	6,011	-	6,011
<b>Total revenues</b>	<b>863,810</b>	<b>-</b>	<b>863,810</b>
<b>Expenditures / expenses</b>			
Current			
Other functions	400,342	197,879	598,221
Debt service			
Principal	364,347	(364,347)	-
Interest and fiscal charges	49,110	(49,110)	-
<b>Total expenditures / expenses</b>	<b>813,799</b>	<b>(215,578)</b>	<b>598,221</b>
<b>Change in fund balance / net assets</b>	<b>50,011</b>	<b>215,578</b>	<b>265,589</b>
Fund balance / net assets, beginning of year	345,911	3,118,272	3,464,183
<b>Fund balance / net assets, end of year</b>	<b>\$ 395,922</b>	<b>\$ 3,333,850</b>	<b>\$ 3,729,772</b>

## **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**

August 9, 2010

City Council  
City of Charlevoix  
Charlevoix County, Michigan

We have audited 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* (the "City"), as of and for the year ended March 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 below to be a material weakness.

**Finding 2010-1: Recording, processing and summarizing accounting data**

**Criteria:** All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

**Condition:** As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. During the current year, the City made a concerted effort to provide a reasonably adjusted trial balance which resulted in a significant decrease in the number of material audit adjustments. However, there were still certain material audit adjustments that the City relied on its external auditors to identify.

**Cause:** This condition was caused in part by the City's decision to purchase and maintain their capital assets in a capital asset software program. With the software being new, City management elected to have the external auditors proposed the capital asset adjustments that they historically provided. Additionally, for the current year, City Management decided that it is more cost effective to have the external auditors recommend some of the other necessary adjusting journal entries to its general ledger and plans to over time obtain the necessary training and expertise required for the City to perform this task internally.

**Effect:** As a result of this condition, the City lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

**Recommendation:** The City should record all known 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.

**City's Response:** The City will continue their efforts to record all adjustments in order to provide a reasonably adjusted trial balance for the purposes of the audit.

## Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated August 9, 2010.

The City's response to the finding identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the City Council, management, and other's within the City and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".