

# **CITY OF CHARLEVOIX**

## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
March 31, 2011**

# CITY OF CHARLEVOIX

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# CITY OF CHARLEVOIX

## List of Elected and Appointed Officials For the Fiscal Year Ended March 31, 2011

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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	Teresa Hart
Director of Golf	Tom Heid

## INDEPENDENT AUDITORS' REPORT

August 24, 2011

The Honorable Mayor and  
Members of the City Council  
City of Charlevoix  
Charlevoix, 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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the City's Airport – Special Revenue Fund 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 24, 2011, 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 Schedule of Funding Progress on page 56 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 supplementary information 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 that reads "Lehmann Johnson".

## **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, 2011.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$61,150,407 (*net assets*). Of this amount, \$9,771,650 (*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 \$349,684.
- At March 31, 2011, the City's governmental funds reported combined ending fund balances of \$2,609,431, an increase of \$140,766 from the prior year. Approximately 86% of this total amount or \$2,167,296 is available for spending at the City's discretion (*unreserved and designated fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,190,400 or 37% 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).



The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, health and welfare, recreation and culture, and other expenditures. The business-type activities of the City include electric, sewer, water 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 11 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 Special Revenue 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 Fund and the Airport - major special revenue fund. 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, employee fringe benefits and Department of Public Works (DPW). Because the motor pool and employee fringe benefit services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The DPW is used for site maintenance and its services predominantly benefit business-type 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 32-55 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 57-62 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 \$61,150,407 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (83 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* (16 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>						
Cash and other assets	\$ 3,413,027	\$ 3,127,097	\$ 7,598,911	\$ 7,441,267	\$ 11,011,938	\$ 10,568,364
Capital assets, net of accumulated depreciation	<u>31,549,353</u>	<u>31,344,986</u>	<u>25,308,337</u>	<u>25,926,067</u>	<u>56,857,690</u>	<u>57,271,053</u>
<b>Total assets</b>	<b><u>34,962,380</u></b>	<b><u>34,472,083</u></b>	<b><u>32,907,248</u></b>	<b><u>33,367,334</u></b>	<b><u>67,869,628</u></b>	<b><u>67,839,417</u></b>
<b>Liabilities</b>						
Current and other liabilities	396,899	346,209	577,378	814,343	974,277	1,160,552
Noncurrent Liabilities	<u>394,944</u>	<u>428,142</u>	<u>5,350,000</u>	<u>5,450,000</u>	<u>5,744,944</u>	<u>5,878,142</u>
<b>Total liabilities</b>	<b><u>791,843</u></b>	<b><u>774,351</u></b>	<b><u>5,927,378</u></b>	<b><u>6,264,343</u></b>	<b><u>6,719,221</u></b>	<b><u>7,038,694</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	31,427,429	31,199,850	19,258,337	19,776,067	50,685,766	50,975,917
Restricted	376,991	366,700	316,000	-	692,991	366,700
Unrestricted	<u>2,366,117</u>	<u>2,131,182</u>	<u>7,405,533</u>	<u>7,326,924</u>	<u>9,771,650</u>	<u>9,458,106</u>
<b>Total net assets</b>	<b><u>\$ 34,170,537</u></b>	<b><u>\$ 33,697,732</u></b>	<b><u>\$ 26,979,870</u></b>	<b><u>\$ 27,102,991</u></b>	<b><u>\$ 61,150,407</u></b>	<b><u>\$ 60,800,723</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 \$349,684 during the current fiscal year.

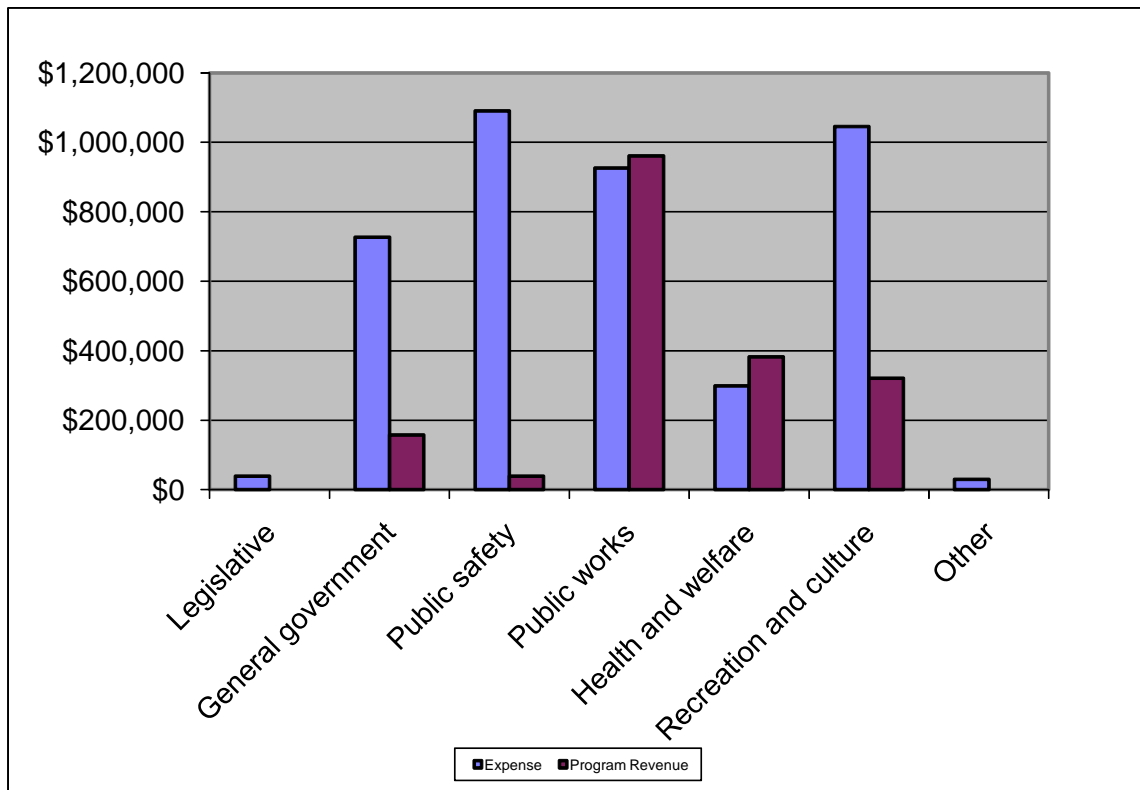
**City of Charlevoix - Primary Government**  
**Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,052,737	\$ 1,056,806	\$ 7,761,094	\$ 7,365,465	\$ 8,813,831	\$ 8,422,271
Operating grants and contributions	378,369	385,641	151,425	202,137	529,794	587,778
Capital grants and contributions	495,230	699,468	-	210,689	495,230	910,157
General revenues						
Property taxes	2,880,352	3,050,329	-	-	2,880,352	3,050,329
State shared revenue	237,386	245,843	-	-	237,386	245,843
Grants and contributions not restricted to specific programs	10,575	11,625	-	619,595	10,575	631,220
Unrestricted investment earnings	15,268	21,011	-	-	15,268	21,011
Gain on sale of capital assets	555	11,000	2,411	-	2,966	11,000
<b>Total revenues</b>	<b><u>5,070,472</u></b>	<b><u>5,481,723</u></b>	<b><u>7,914,930</u></b>	<b><u>8,397,886</u></b>	<b><u>12,985,402</u></b>	<b><u>13,879,609</u></b>
<b>Expenses</b>						
Legislative	38,968	35,839	-	-	38,968	35,839
General government	727,182	614,269	-	-	727,182	614,269
Public safety	1,090,566	1,162,447	-	-	1,090,566	1,162,447
Public works	926,436	1,052,745	-	-	926,436	1,052,745
Health and welfare	298,448	259,702	-	-	298,448	259,702
Recreation and culture	1,045,325	832,927	-	-	1,045,325	832,927
Other	29,755	-	-	-	29,755	-
Interest on long-term debt	7,219	8,647	-	-	7,219	8,647
Electric	-	-	5,139,640	4,990,508	5,139,640	4,990,508
Sewage disposal	-	-	1,186,796	1,056,677	1,186,796	1,056,677
Water	-	-	1,025,340	964,544	1,025,340	964,544
Marina	-	-	1,120,043	1,159,747	1,120,043	1,159,747
<b>Total expenses</b>	<b><u>4,163,899</u></b>	<b><u>3,966,576</u></b>	<b><u>8,471,819</u></b>	<b><u>8,171,476</u></b>	<b><u>12,635,718</u></b>	<b><u>12,138,052</u></b>
Increase in net assets before transfers	906,573	1,515,147	(556,889)	226,410	349,684	1,741,557
Transfers & local contributions	(433,768)	(166,408)	433,768	156,408	-	(10,000)
<b>Change in net assets</b>	<b>472,805</b>	<b>1,348,739</b>	<b>(123,121)</b>	<b>382,818</b>	<b>349,684</b>	<b>1,731,557</b>
Net assets – beginning of year	<u>33,697,732</u>	<u>32,348,993</u>	<u>27,102,991</u>	<u>26,720,173</u>	<u>60,800,723</u>	<u>59,069,166</u>
<b>Net assets – end of year</b>	<b><u>\$ 34,170,537</u></b>	<b><u>\$ 33,697,732</u></b>	<b><u>\$ 26,979,870</u></b>	<b><u>\$ 27,102,991</u></b>	<b><u>\$ 61,150,407</u></b>	<b><u>\$ 60,800,723</u></b>

**Governmental activities.** Governmental activities increased the City’s net assets by \$472,805. Key elements of this increase are as follows:

- Capital grants and contributions decreased approximately \$204,000 resulting from decreased Federal revenue for airport capital improvements.
- Federal Aviation Administration (“FAA”) and State of Michigan grants provided approximately \$495,000 for improvements at the airport.

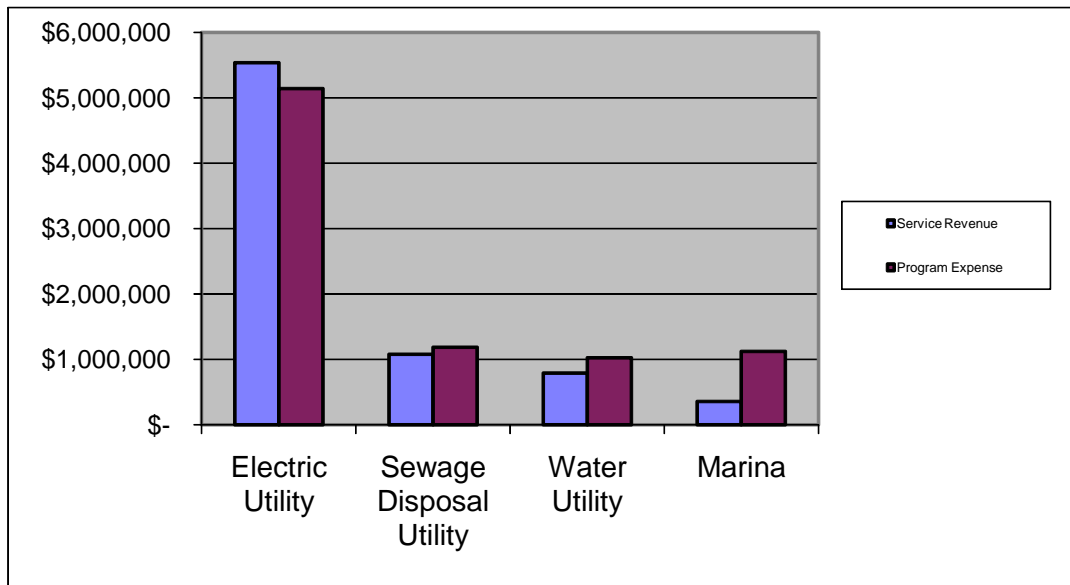
**Expenses and Program Revenues – Governmental Activities**



**Business-type activities.** Business-type activities decreased the City’s net assets by \$123,121. Key elements of this change are as follows:

- The Electric Fund cost for purchased power increased by approximately 3% from the prior year.
- The Sewer Fund had a net loss from operations which were not covered by Fund Transfers. The higher costs which created the loss were due to repair and maintenance costs for the aging Wastewater Plant.

## 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 \$2,609,431, an increase of \$140,766 in comparison with the prior year. A significant portion of the fund balances, \$2,167,296, constitutes *unreserved fund balances*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for certain purposes or designated for subsequent year's expenditures.

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 \$1,190,400. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 37% percent of total General Fund expenditures and transfers out.

The fund balance of the City's General Fund increased by \$185,145 during the current fiscal year, compared to a budgeted increase of \$72,543. Many factors contributed to this change during the year, but the main reasons for the increase were lower cost in Legislative, General Government, Public Safety, and Public Works expenditures than estimated in the budgeting process.

The Airport Fund had a total fund balance of \$20,476 at March 31, 2011. The Airport Fund's fund balance increased by \$6,677, compared to a budgeted decrease of \$41,135, due in most part to a decrease in expenditures and increase in transfers to this fund.

**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 Enterprise Funds at the end of the year amounted to \$6,875,154 and the investment in capital assets net of related debt was \$19,161,431. The Electric Utility Fund and Water Utility Fund had an increase in net assets for the year of \$320,177 and \$64,857, respectively and the Sewage Disposal Utility Fund and Marina Fund had a decrease of \$21,553 and \$670,354, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business type activities.

### **General Fund Budgetary Highlights**

During the year, General Fund revenues were higher than budgetary estimates and expenditures were less than budgetary estimates. There was an increase in fund balance of \$185,145 compared to a budgeted increase of \$72,543. This was a result of lower than expected expenditures in the general fund. The reduction in expenditures was a result of cutting expenditures in various functions.

### **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, 2011, amounted to \$56,857,690 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, systems, machinery and equipment and infrastructure including park facilities, roads, highways, and bridges.

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

- Utility system improvements and equipment purchases.
- Park Avenue engineering and construction
- Dewitt parking lot construction
- Updates to 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 17,892,863	\$ 17,892,863	\$ 609,468	\$ 609,468	\$ 18,502,331	\$ 18,502,331
Construction-in-progress	568,127	886,577	-	168,461	568,127	1,055,038
Land improvements	4,045,617	3,579,764	11,739,565	12,475,075	15,785,182	16,054,839
Infrastructure	1,501,832	1,004,781	-	-	1,501,832	1,004,781
Buildings and improvements	5,848,254	6,090,085	2,393,567	2,430,997	8,241,821	8,521,082
System improvements	-	-	10,064,934	9,709,185	10,064,934	9,709,185
Machinery and equipment	892,346	946,481	500,803	532,881	1,393,149	1,479,362
Vehicles	800,314	944,435	-	-	800,314	944,435
<b>Total</b>	<b><u>\$ 31,549,353</u></b>	<b><u>\$ 31,344,986</u></b>	<b><u>\$ 25,308,337</u></b>	<b><u>\$ 25,926,067</u></b>	<b><u>\$ 56,857,690</u></b>	<b><u>\$ 57,271,053</u></b>

Additional information on the City's capital assets can be found in Note III C on pages 42-45 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 \$121,924. 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 \$5,350,000 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 \$825,000 and \$114,349, respectively.

**City of Charlevoix**  
**Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Installment purchase agreement	\$ 77,289	\$ -	\$ 114,349
MDOT loan	44,635	-	-
Marina limited tax general obligation bonds	-	5,350,000	-
General obligation refunding bond	-	-	825,000
<b>Total</b>	<b><u>\$ 121,924</u></b>	<b><u>\$ 5,350,000</u></b>	<b><u>\$ 939,349</u></b>

The City's and Component Unit's total debt, excluding compensated absences decreased by \$497,559.



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 \$23,134,603, 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 47-49 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 12.8% a year ago. This compares to the state’s current average unemployment rate of 10.3% and the national average rate of 9.2%.
- 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 we also lost population in the 2010 census which will reduce our State Revenue Sharing by approximately \$21,000 during 2011-12. Problems with foreclosures are still occurring, although taxable values increased slightly for 2011 which was not considered in preparing the budget, creating a small revenue increase to start the year.
- The tax collection rate for the year was 96% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in May each year following the March settlement.
- An increase of 12% in health care costs in the 2011-12 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 12% 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 again being offered 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. Proposed legislation in the State could require employee contributions up to \$100,000 per year, reducing the City’s cost. Rates have been quoted with an average increase of 17% without any change to benefit levels.
- We have received the MERS (Retirement System) funding rates for next year (2011-12) and they will increase slightly, the budget estimated a 2.5% increase. With long term funding nearly \$3 million underfunded for all groups, the City administration will try to move all employees to a “Bridge Plan” which will not impact current costs, but will reduce long-term liabilities and provide future savings by reducing future benefits for employees.

- 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 levied for 2.0593 mills and was subject to the Headlee Rollback. The refuse millage (PA 213) was reduced to .9 mills to reflect the cost to pickup and compost leaves, brush and the City's spring cleanup program. The proposed tax rates are slightly lower and cost reduction is being used to maintain current service levels. Some levels have been cut and the adopted budget included increased revenues of approximately \$36,100 due to rate increases and reductions in spending of \$27,000 in the General Fund. Additional Revenue Sharing cuts are expected as the State has eliminated statutory revenue sharing unless certain "best practices" meet the Department of Treasury's guidelines. The City could keep or lose up to \$51,000 in Revenue Sharing with this program.
- 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 was completed in the 2011-12 budget which suggested a 2% increase in the 2012-13 fiscal year.
- Employee Fringe Benefit Fund rates were increased by 1.37% for all funds for 2011-12. There is a need to build a reserve into this fund due to rising benefit costs.
- Wage rates increased for CWA union workers by 2.25% per their labor contract while non-union employees' wages will increase by 1%. Police and fire contractual employees are still in labor negotiations concerning their wages and benefits.
- Rates were also increased for the golf course, Mt. McSauba ski area, skating rink, marina, ambulance rates and airport 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, 2011**

	<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	\$ 2,032,247	\$ 3,442,390	\$ 5,474,637	\$ 382,074
Cash with fiscal agent	-	108,998	108,998	115,937
Investments	1,239,378	1,868,909	3,108,287	-
Receivables, net	337,384	1,007,358	1,344,742	2,013
Internal balances	(240,501)	240,501	-	-
Other assets	44,519	389,755	434,274	13,273
Restricted cash	-	316,000	316,000	-
Restricted investments for replacement	-	225,000	225,000	-
Capital assets not being depreciated	18,460,990	609,468	19,070,458	923,071
Capital assets, being depreciated, net	13,088,363	24,698,869	37,787,232	3,540,132
<b>Total assets</b>	<b>34,962,380</b>	<b>32,907,248</b>	<b>67,869,628</b>	<b>4,976,500</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	330,696	577,378	908,074	9,351
Unearned revenue	66,203	-	66,203	-
Noncurrent liabilities				
Long-term debt due within one year	24,342	160,000	184,342	379,349
Long-term debt due in more than one year	370,602	5,190,000	5,560,602	560,000
<b>Total liabilities</b>	<b>791,843</b>	<b>5,927,378</b>	<b>6,719,221</b>	<b>948,700</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	31,427,429	19,258,337	50,685,766	3,523,854
Restricted for				
Nonexpendable perpetual care	376,991	-	376,991	-
Restricted for deposits with MPPA	-	316,000	316,000	-
Debt service	-	-	-	503,946
Unrestricted	2,366,117	7,405,533	9,771,650	-
<b>Total net assets</b>	<b>\$ 34,170,537</b>	<b>\$ 26,979,870</b>	<b>\$ 61,150,407</b>	<b>\$ 4,027,800</b>

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

**CITY OF CHARLEVOIX**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2011**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Primary government</b>				
Governmental activities				
Legislative	\$ 38,968	\$ -	\$ -	\$ (38,968)
General government	727,182	157,291	31,335	(538,556)
Public safety	1,090,566	38,709	9,978	(1,041,879)
Public works	926,436	153,308	312,386	34,488
Health and welfare	298,448	382,261	-	83,813
Recreation and culture	1,045,325	321,168	24,670	(699,487)
Other expenditures	29,755	-	-	(29,755)
Interest on long-term debt	7,219	-	-	(7,219)
Total governmental activities	<u>4,163,899</u>	<u>1,052,737</u>	<u>378,369</u>	<u>(2,237,563)</u>
Business-type activities				
Electric utility	5,139,640	5,537,660	34,326	432,346
Sewage disposal utility	1,186,796	1,077,852	12,637	(96,307)
Water utility	1,025,340	787,876	4,004	(233,460)
Marina	1,120,043	357,706	100,458	(661,879)
Total business-type activities	<u>8,471,819</u>	<u>7,761,094</u>	<u>151,425</u>	<u>(559,300)</u>
<b>Total primary government</b>	<u>\$ 12,635,718</u>	<u>\$ 8,813,831</u>	<u>\$ 529,794</u>	<u>\$ (2,796,863)</u>
<b>Component unit</b>				
Downtown Development Authority	<u>\$ 477,419</u>	<u>\$ 31,074</u>	<u>\$ 5,085</u>	<u>\$ (441,260)</u>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2011**

	<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	\$ (2,237,563)	\$ (559,300)	\$ (2,796,863)	\$ (441,260)
<b>General revenues and transfers</b>				
Property taxes	2,880,352	-	2,880,352	739,288
State shared revenues	237,386	-	237,386	-
Grants and contributions not restricted to specific programs	10,575	-	10,575	-
Unrestricted investment earnings	15,268	-	15,268	-
Gain on sale of capital assets	555	2,411	2,966	-
Transfers	(433,768)	433,768	-	-
<b>Total general revenues and transfers</b>	<b>2,710,368</b>	<b>436,179</b>	<b>3,146,547</b>	<b>739,288</b>
<b>Changes in net assets</b>	<b>472,805</b>	<b>(123,121)</b>	<b>349,684</b>	<b>298,028</b>
Net assets, beginning of year	33,697,732	27,102,991	60,800,723	3,729,772
<b>Net assets, end of year</b>	<b>\$ 34,170,537</b>	<b>\$ 26,979,870</b>	<b>\$ 61,150,407</b>	<b>\$ 4,027,800</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, 2011**

	<b>General</b>	<b>Airport</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 781,777	\$ 22,610	\$ 724,656	\$ 1,529,043
Investments	408,660	-	664,736	1,073,396
Accounts receivable, net	83,545	19,189	516	103,250
Taxes receivable	97,317	-	36,405	133,722
Interest receivable	1,801	-	2,377	4,178
Other assets	595	2,388	-	2,983
Due from other funds	37,583	-	-	37,583
Due from other governments	51,008	-	44,678	95,686
<b>Total assets</b>	<b>\$ 1,462,286</b>	<b>\$ 44,187</b>	<b>\$ 1,473,368</b>	<b>\$ 2,979,841</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Checks issued in excess of cash	\$ -	\$ -	\$ 61,720	\$ 61,720
Accounts payable	49,306	20,809	16,834	86,949
Accrued expenditures	92,259	2,902	735	95,896
Due to other funds	59,642	-	-	59,642
Deferred revenue	66,203	-	-	66,203
<b>Total liabilities</b>	<b>267,410</b>	<b>23,711</b>	<b>79,289</b>	<b>370,410</b>
<b>Fund balances</b>				
Reserved for				
Perpetual care	-	-	376,991	376,991
Prepaid expenditures	595	2,388	-	2,983
Downtown parking	-	-	58,280	58,280
Scholarships	3,881	-	-	3,881
Unreserved				
Designated for subsequent years' expenditures	68,500	1,000	206,200	275,700
Undesignated	1,121,900	17,088	-	1,138,988
Undesignated - reported in nonmajor				
Special revenue funds	-	-	161,066	161,066
Capital projects funds	-	-	591,542	591,542
<b>Total fund balances</b>	<b>1,194,876</b>	<b>20,476</b>	<b>1,394,079</b>	<b>2,609,431</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,462,286</b>	<b>\$ 44,187</b>	<b>\$ 1,473,368</b>	<b>\$ 2,979,841</b>

Continued...

**CITY OF CHARLEVOIX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**MARCH 31, 2011**

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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	\$ 2,609,431
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)	30,516,400
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	1,446,323
Deduct - net assets allocated to business-type activities from governmental-type activity internal service funds	(150,213)
Certain liabilities, such as loans, are not due and payable in the current period, and therefore are not reported in the funds.	
Deduct - installment contracts and loans	(121,924)
Deduct - compensated absences - sick leave	(125,666)
Deduct - accrued interest on bonds and advances	(3,814)
<b>Net assets of governmental activities</b>	<b><u>\$ 34,170,537</u></b>

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, 2011**

	<b>General</b>	<b>Airport</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 2,183,399	\$ -	\$ 696,953	\$ 2,880,352
Federal revenue	-	495,230	-	495,230
State revenue	238,978	12,367	300,562	551,907
Licenses and permits	5,116	-	-	5,116
Charges for services	746,323	95,858	5,525	847,706
Fines and forfeits	16,059	-	-	16,059
Interest	5,302	-	8,114	13,416
Rents and royalties	111,781	55,799	6,188	173,768
Other revenue	77,735	555	4,370	82,660
<b>Total revenues</b>	<b>3,384,693</b>	<b>659,809</b>	<b>1,021,712</b>	<b>5,066,214</b>
<b>Expenditures</b>				
Current				
Legislative	39,003	-	-	39,003
General government	513,007	-	108,925	621,932
Public safety	1,033,552	-	-	1,033,552
Public works	239,723	692,701	520,350	1,452,774
Health and welfare	301,130	-	-	301,130
Recreation and culture	859,878	-	88,958	948,836
Other expenditures	29,755	-	-	29,755
Debt service				
Principal	-	23,212	-	23,212
Interest	-	7,219	-	7,219
<b>Total expenditures</b>	<b>3,016,048</b>	<b>723,132</b>	<b>718,233</b>	<b>4,457,413</b>
<b>Revenues over (under) expenditures</b>	<b>368,645</b>	<b>(63,323)</b>	<b>303,479</b>	<b>608,801</b>
<b>Other financing (uses) sources</b>				
Transfers in	2,500	70,000	399,545	472,045
Transfers out	(186,000)	-	(754,080)	(940,080)
<b>Total other financing (uses) sources</b>	<b>(183,500)</b>	<b>70,000</b>	<b>(354,535)</b>	<b>(468,035)</b>
<b>Net change in fund balances</b>	<b>185,145</b>	<b>6,677</b>	<b>(51,056)</b>	<b>140,766</b>
Fund balances, beginning of year	1,009,731	13,799	1,445,135	2,468,665
<b>Fund balances, end of year</b>	<b>\$ 1,194,876</b>	<b>\$ 20,476</b>	<b>\$ 1,394,079</b>	<b>\$ 2,609,431</b>

Continued...

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

**FOR THE YEAR ENDED MARCH 31, 2011**

**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 \$ 140,766

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	900,190
Deduct - depreciation expense	(691,920)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan 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	23,212
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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	149,659
Deduct - change in net assets from governmental activities accounted for in internal service funds charged to business type activities.	(39,254)

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 - net increase in compensated absences - sick leave	<u>(9,848)</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ 472,805</u></b>
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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, 2011**

	Budgeted Amounts		Actual	Variance With Final Amended Budget Positive (Negative)
	Original	Final		
<b>Taxes</b>				
Property taxes	\$ 2,138,000	\$ 2,160,554	\$ 2,148,100	\$ (12,454)
Payments in lieu of taxes	3,300	3,328	3,828	500
Interest and penalties on delinquent taxes	17,000	17,000	12,763	(4,237)
Tax collection fees	16,300	16,300	18,708	2,408
<b>Total taxes</b>	<b>2,174,600</b>	<b>2,197,182</b>	<b>2,183,399</b>	<b>(13,783)</b>
<b>State revenue</b>	<b>235,100</b>	<b>246,047</b>	<b>238,978</b>	<b>(7,069)</b>
<b>Licenses and permits</b>	<b>1,800</b>	<b>3,900</b>	<b>5,116</b>	<b>1,216</b>
<b>Charges for services</b>				
Fire runs	77,200	38,709	38,709	-
Ambulance runs	180,000	237,000	301,450	64,450
Ambulance contracts	43,700	80,811	80,811	-
Cemetery	37,700	25,000	26,381	1,381
Golf course	161,000	144,296	144,894	598
Summer sports	4,000	3,400	4,650	1,250
Day camp	58,300	50,747	50,933	186
Winter sports	70,000	60,000	64,194	4,194
Basketball	2,500	1,200	820	(380)
Skate park	6,700	3,360	3,360	-
Parking	23,400	25,352	25,352	-
Other	4,600	4,200	4,769	569
<b>Total charges for services</b>	<b>669,100</b>	<b>674,075</b>	<b>746,323</b>	<b>71,679</b>
<b>Fines and forfeits</b>	<b>27,900</b>	<b>15,930</b>	<b>16,059</b>	<b>129</b>
<b>Interest and dividends</b>	<b>8,000</b>	<b>4,000</b>	<b>5,302</b>	<b>1,302</b>
<b>Rents and royalties</b>				
City hall	89,900	89,900	91,004	1,104
Boat launch/Harbor building	21,800	20,776	20,777	1
<b>Total rents and royalties</b>	<b>111,700</b>	<b>110,676</b>	<b>111,781</b>	<b>1,105</b>
<b>Other revenues</b>	<b>20,800</b>	<b>64,727</b>	<b>77,735</b>	<b>13,008</b>
<b>Total revenues</b>	<b>3,249,000</b>	<b>3,316,537</b>	<b>3,384,693</b>	<b>67,587</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, 2011**

	Budgeted Amounts		Actual	Variance With Final Amended Budget Positive (Negative)
	Original	Final		
<b>Legislative</b>				
City council	\$ 50,800	\$ 43,143	\$ 39,003	\$ 4,140
<b>General government</b>				
Mayor	9,200	8,600	6,637	1,963
City manager	59,100	56,164	55,789	375
Elections	17,700	19,747	19,654	93
Assessor	71,200	77,375	73,683	3,692
City attorney	56,100	62,074	68,124	(6,050)
City clerk	41,000	37,450	35,620	1,830
City treasurer	61,200	52,376	54,059	(1,683)
City hall and grounds	108,800	128,809	131,439	(2,630)
Cemetery	80,100	73,492	68,002	5,490
<b>Total general government</b>	<b>504,400</b>	<b>516,087</b>	<b>513,007</b>	<b>3,080</b>
<b>Public safety</b>				
Police department	705,300	700,502	690,763	9,739
Parking law enforcement	11,600	7,988	7,816	172
Fire department	291,200	282,445	260,654	21,791
Planning department	78,700	81,391	74,319	7,072
<b>Total public safety</b>	<b>1,086,800</b>	<b>1,072,326</b>	<b>1,033,552</b>	<b>38,774</b>
<b>Public works</b>				
Highways and streets	10,900	13,245	18,778	(5,533)
Leaf pick up	117,700	118,097	111,346	6,751
Waste collection	54,900	54,900	58,530	(3,630)
Brush pickup	52,300	56,596	51,069	5,527
<b>Total public works</b>	<b>235,800</b>	<b>242,838</b>	<b>239,723</b>	<b>3,115</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, 2011**

	Budgeted Amounts		Actual	Variance With Final Amended Budget Positive (Negative)
	Original	Final		
<b>Health and welfare</b>				
<b>Ambulance</b>	<b>\$ 342,300</b>	<b>\$ 323,816</b>	<b>\$ 301,130</b>	<b>\$ 22,686</b>
<b>Recreation and culture</b>				
Parks	331,600	356,356	369,921	(13,565)
Recreation administration	32,000	40,362	40,320	42
City beaches	20,600	15,438	15,433	5
Ball fields	17,100	16,342	17,601	(1,259)
Day camp	48,100	46,156	46,140	16
Ice rink	4,200	4,164	6,538	(2,374)
Mt. McSauba ski hill	128,800	107,635	118,989	(11,354)
Basketball and volleyball	1,000	1,000	493	507
Golf course	215,400	207,266	211,918	(4,652)
Boat launch	18,100	17,439	16,757	682
Skate park	6,700	7,566	7,710	(144)
Community promotion	9,400	8,960	8,058	902
<b>Total recreation and culture</b>	<b>833,000</b>	<b>828,684</b>	<b>859,878</b>	<b>(31,194)</b>
<b>Other expenditures</b>	<b>68,200</b>	<b>28,600</b>	<b>29,755</b>	<b>(1,155)</b>
<b>Total expenditures</b>	<b>3,121,300</b>	<b>3,055,494</b>	<b>3,016,048</b>	<b>39,446</b>
<b>Revenues over expenditures</b>	<b>127,700</b>	<b>261,043</b>	<b>368,645</b>	<b>107,602</b>
<b>Other financing sources (uses)</b>				
Transfers in	2,500	2,500	2,500	-
Transfers out	(113,000)	(191,000)	(186,000)	5,000
<b>Total other financing sources (uses)</b>	<b>(110,500)</b>	<b>(188,500)</b>	<b>(183,500)</b>	<b>5,000</b>
<b>Net change in fund balance</b>	<b>17,200</b>	<b>72,543</b>	<b>185,145</b>	<b>112,602</b>
Fund balance, beginning of year	1,009,731	1,009,731	1,009,731	-
<b>Fund balance, end of year</b>	<b>\$ 1,026,931</b>	<b>\$ 1,082,274</b>	<b>\$ 1,194,876</b>	<b>\$ 112,602</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, 2011**

	Budgeted Amounts		Actual	Variance With Final Amended Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Federal revenue	\$ 950,000	\$ 950,000	\$ 495,230	\$ (454,770)
State revenue	25,000	25,000	12,367	(12,633)
Charges for services	80,500	80,500	95,858	15,358
Interest	300	300	-	(300)
Rents and royalties	55,400	55,400	55,799	399
Other	-	-	555	555
<b>Total revenues</b>	<b>1,111,200</b>	<b>1,111,200</b>	<b>659,809</b>	<b>(451,391)</b>
<b>Expenditures</b>				
Public works	1,122,500	1,161,904	692,701	469,203
Debt service				
Principal	23,200	23,223	23,212	11
Interest	7,200	7,208	7,219	(11)
<b>Total expenditures</b>	<b>1,152,900</b>	<b>1,192,335</b>	<b>723,132</b>	<b>469,203</b>
<b>Revenues under expenditures</b>	<b>(41,700)</b>	<b>(81,135)</b>	<b>(63,323)</b>	<b>(17,812)</b>
<b>Other financing sources</b>				
<b>Transfers in</b>	<b>40,000</b>	<b>40,000</b>	<b>70,000</b>	<b>30,000</b>
<b>Net change in fund balance</b>	<b>(1,700)</b>	<b>(41,135)</b>	<b>6,677</b>	<b>47,812</b>
Fund balances, beginning of year	13,799	13,799	13,799	-
<b>Fund balance (deficit), end of year</b>	<b>\$ 12,099</b>	<b>\$ (27,336)</b>	<b>\$ 20,476</b>	<b>\$ 47,812</b>

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



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

MARCH 31, 2011

	Enterprise Funds					Internal Service Funds
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 2,401,195	\$ 310,118	\$ 127,986	\$ 218,963	\$ 3,058,262	\$ 887,332
Investments	1,638,573	155,573	48,150	26,613	1,868,909	165,982
Cash at fiscal agent	-	-	-	108,998	108,998	-
Accounts receivable, net	779,874	107,376	71,374	1,038	959,662	53
Interest receivable	46,477	434	424	361	47,696	495
Due from other funds	-	6,168	-	7,967	14,135	53,474
Other assets	-	-	-	36,596	36,596	41,536
Inventory	299,652	-	53,507	-	353,159	-
<b>Total current assets</b>	<b>5,165,771</b>	<b>579,669</b>	<b>301,441</b>	<b>400,536</b>	<b>6,447,417</b>	<b>1,148,872</b>
<b>Noncurrent assets</b>						
Restricted cash	316,000	-	-	-	316,000	-
Restricted investments for replacement	75,000	75,000	75,000	-	225,000	-
Advance to other funds	700,000	-	76,153	-	776,153	-
Capital assets, not being depreciated	187,613	345,125	13,730	-	546,468	83,653
Capital assets, net of accumulated depreciation	4,965,384	4,045,727	4,291,013	11,362,839	24,664,963	1,046,206
<b>Total noncurrent assets</b>	<b>6,243,997</b>	<b>4,465,852</b>	<b>4,455,896</b>	<b>11,362,839</b>	<b>26,528,584</b>	<b>1,129,859</b>
<b>Total assets</b>	<b>11,409,768</b>	<b>5,045,521</b>	<b>4,757,337</b>	<b>11,763,375</b>	<b>32,976,001</b>	<b>2,278,731</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable	277,152	25,420	31,348	3,193	337,113	56,635
Accrued expenses	5,042	3,851	4,817	109,559	123,269	29,644
Customer deposits	69,073	-	-	43,961	113,034	-
Current portion of bonds payable	-	-	-	160,000	160,000	-
Due to other funds	-	-	-	-	-	45,550
<b>Total current liabilities</b>	<b>351,267</b>	<b>29,271</b>	<b>36,165</b>	<b>316,713</b>	<b>733,416</b>	<b>131,829</b>
<b>Noncurrent liabilities</b>						
Advance from other funds	-	-	-	700,000	700,000	76,153
Bonds payable, net of current portion	-	-	-	5,190,000	5,190,000	-
Compensated absences	-	-	-	-	-	147,354
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,890,000</b>	<b>5,890,000</b>	<b>223,507</b>
<b>Total liabilities</b>	<b>351,267</b>	<b>29,271</b>	<b>36,165</b>	<b>6,206,713</b>	<b>6,623,416</b>	<b>355,336</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	5,152,997	4,390,852	4,304,743	5,312,839	19,161,431	1,129,859
Restricted for deposits with MPPA	316,000	-	-	-	316,000	-
Unrestricted	5,589,504	625,398	416,429	243,823	6,875,154	793,536
<b>Total net assets</b>	<b>\$ 11,058,501</b>	<b>\$ 5,016,250</b>	<b>\$ 4,721,172</b>	<b>\$ 5,556,662</b>	<b>\$ 26,352,585</b>	<b>\$ 1,923,395</b>

Continued...

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

**MARCH 31, 2011**

---

**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 \$ 26,352,585

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 477,072

Add - net assets allocated to business-type activities from governmental-type activity internal service funds 150,213

**Net assets of business-type activities** **\$ 26,979,870**

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, 2011**

	Enterprise Funds					Internal Service Funds
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	
<b>Operating revenues</b>						
Charges for services	\$ 5,537,660	\$ 1,077,852	\$ 787,776	\$ 357,656	\$ 7,760,944	\$ 2,492,478
<b>Operating expenses</b>						
Purchased power	3,505,346	-	-	-	3,505,346	-
Personnel services	775,825	438,617	520,264	129,685	1,864,391	1,994,235
Contractual services	62,438	112,690	44,508	31,912	251,548	47,944
Insurance	17,053	12,214	3,351	2,103	34,721	-
Building rental	46,704	21,600	21,600	-	89,904	-
Equipment rental	49,917	70,797	70,946	185	191,845	-
Supplies	70,534	74,351	77,697	8,939	231,521	87,912
Utilities	27,726	130,567	50,864	52,290	261,447	8,789
Repair and maintenance	36,029	117,242	18,027	2,564	173,862	72,160
Depreciation	515,285	216,185	214,628	657,575	1,603,673	184,092
Amortization	-	-	-	2,440	2,440	-
Miscellaneous	32,855	9,121	8,486	5,638	56,100	3,226
<b>Total operating expenses</b>	<b>5,139,712</b>	<b>1,203,384</b>	<b>1,030,371</b>	<b>893,331</b>	<b>8,266,798</b>	<b>2,398,358</b>
<b>Operating income (loss)</b>	<b>397,948</b>	<b>(125,532)</b>	<b>(242,595)</b>	<b>(535,675)</b>	<b>(505,854)</b>	<b>94,120</b>
<b>Nonoperating revenues (expenses)</b>						
Interest revenue	34,326	6,457	4,004	458	45,245	1,864
Gain on sale of capital assets	2,411	-	100	-	2,511	-
Other revenue	-	-	-	100,050	100,050	2,406
Federal revenue	-	6,168	-	-	6,168	-
Interest expense	(41)	-	-	(227,220)	(227,261)	-
<b>Total nonoperating revenues (expenses)</b>	<b>36,696</b>	<b>12,625</b>	<b>4,104</b>	<b>(126,712)</b>	<b>(73,287)</b>	<b>4,270</b>
<b>Income (loss) before transfers</b>	<b>434,644</b>	<b>(112,907)</b>	<b>(238,491)</b>	<b>(662,387)</b>	<b>(579,141)</b>	<b>98,390</b>
<b>Transfers</b>						
Transfers in	5,633	91,354	332,848	-	429,835	250,467
Transfers out	(120,100)	-	(29,500)	(7,967)	(157,567)	(54,700)
<b>Total transfers</b>	<b>(114,467)</b>	<b>91,354</b>	<b>303,348</b>	<b>(7,967)</b>	<b>272,268</b>	<b>195,767</b>
<b>Change in net assets</b>	<b>320,177</b>	<b>(21,553)</b>	<b>64,857</b>	<b>(670,354)</b>	<b>(306,873)</b>	<b>294,157</b>
Net assets, beginning of year	10,738,324	5,037,803	4,656,315	6,227,016	26,659,458	1,629,238
<b>Net assets, end of year</b>	<b>\$ 11,058,501</b>	<b>\$ 5,016,250</b>	<b>\$ 4,721,172</b>	<b>\$ 5,556,662</b>	<b>\$ 26,352,585</b>	<b>\$ 1,923,395</b>

Continued...

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

**FOR THE YEAR ENDED MARCH 31, 2011**

---

**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	\$ (306,873)
An internal service fund is used by management to charge the costs of certain activities 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 activities	144,498
Add - change in net assets of internal service funds accounted for in governmental activities but charged to business-type activities	<u>39,254</u>
<b>Change in net assets of business-type activities</b>	<b><u>\$ (123,121)</u></b>
	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, 2011**

	<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>Cash flows from operating activities</b>						
Cash received from customers	\$ 5,533,716	\$ 1,074,751	\$ 782,062	\$ 339,129	\$ 7,729,658	\$ -
Cash received from interfund services	-	-	-	-	-	2,492,517
Cash payments to employees	(771,884)	(437,804)	(518,793)	(20,387)	(1,748,868)	(2,045,526)
Cash payments to suppliers for goods and services	(4,104,259)	(580,983)	(287,928)	(216,567)	(5,189,737)	(235,709)
<b>Net cash provided by (used in) operating activities</b>	<b>657,573</b>	<b>55,964</b>	<b>(24,659)</b>	<b>102,175</b>	<b>791,053</b>	<b>211,282</b>
<b>Cash flows from noncapital financing activities</b>						
Miscellaneous receipts	-	-	-	100,050	100,050	2,406
Transfers in	5,633	91,354	332,848	-	429,835	250,467
Transfers out	(120,100)	-	(29,500)	(7,967)	(157,567)	(54,700)
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>(114,467)</b>	<b>91,354</b>	<b>303,348</b>	<b>92,083</b>	<b>372,318</b>	<b>198,173</b>
<b>Cash flows from capital and related financing activities</b>						
Purchase of capital assets	(475,377)	(91,354)	(427,400)	-	(994,131)	(172,001)
Bond principal payments	-	-	-	(100,000)	(100,000)	-
Bond interest payments	(41)	-	-	(227,200)	(227,241)	-
<b>Net cash used in capital and related financing activities</b>	<b>(475,418)</b>	<b>(91,354)</b>	<b>(427,400)</b>	<b>(327,200)</b>	<b>(1,321,372)</b>	<b>(172,001)</b>
<b>Cash flows from investing activities</b>						
Proceeds from matured investments	1,779,438	334,775	146,996	5,000	2,266,209	190,982
Purchase of investments	(1,713,573)	(230,573)	(123,150)	(26,613)	(2,093,909)	(165,982)
Repayment on advance to other funds	-	-	-	-	-	(14,097)
Receipt of amounts from advance to other funds	-	-	14,097	-	14,097	-
Investment income	38,681	7,848	4,468	101	51,098	2,998
<b>Net cash provided by (used in) investing activities</b>	<b>104,546</b>	<b>112,050</b>	<b>42,411</b>	<b>(21,512)</b>	<b>237,495</b>	<b>13,901</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>172,234</b>	<b>168,014</b>	<b>(106,300)</b>	<b>(154,454)</b>	<b>79,494</b>	<b>251,355</b>
Cash and cash equivalents, beginning of year	2,544,961	142,104	234,286	482,415	3,403,766	635,977
Cash and cash equivalents, including cash at fiscal agent and restricted cash, end of year	2,717,195	310,118	127,986	327,961	3,483,260	887,332
Cash at fiscal agent, end of year	-	-	-	(108,998)	(108,998)	-
Restricted cash, end of year	(316,000)	-	-	-	(316,000)	-
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,401,195</b>	<b>\$ 310,118</b>	<b>\$ 127,986</b>	<b>\$ 218,963</b>	<b>\$ 3,058,262</b>	<b>\$ 887,332</b>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2011**

	<b>Business-type Activities - Enterprise 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>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 397,948	\$ (125,532)	\$ (242,595)	\$ (535,675)	\$ (505,854)	\$ 94,120
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation	515,285	216,185	214,628	657,575	1,603,673	184,092
Amortization	-	-	-	2,440	2,440	-
Changes in assets and liabilities						
Accounts receivable	(2,741)	(3,101)	(5,714)	(318)	(11,874)	39
Due from other funds	-	-	-	-	-	-
Other assets	28	371	-	-	399	(3,999)
Inventory	(50,249)	-	(6,555)	-	(56,804)	-
Accounts payable	(205,354)	(32,772)	14,106	(112,936)	(336,956)	(11,679)
Accrued expenses	3,859	813	1,471	109,298	115,441	(31,457)
Customer deposits	(1,203)	-	-	(18,209)	(19,412)	-
Accrued compensated absences - vacation	-	-	-	-	-	(19,834)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 657,573</b>	<b>\$ 55,964</b>	<b>\$ (24,659)</b>	<b>\$ 102,175</b>	<b>\$ 791,053</b>	<b>\$ 211,282</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, 2011**

---

<b>Assets</b>	
Cash and cash equivalents	<u>\$    99,149</u>
<b>Liabilities</b>	
Undistributed receipts	<u>\$    99,149</u>

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

**CITY OF CHARLEVOIX**

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**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2011**

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# 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

---

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 and expenditures 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 Department of Public Works 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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric utility, sewage disposal utility, water utility 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.

***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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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.

#### ***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, 2011, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$20,000. The receivables for Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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). 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 \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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>
Land improvements	20-50
Infrastructure	30-50
Buildings and improvements	40
Systems improvements	5-20
Machinery and equipment	5-10
Vehicles	5-20

### **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.

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### 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 City Council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than the third Monday in February.

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

### B. Excess of expenditures over appropriations

	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unfavorable Variance</u>
<b>General Fund</b>			
Recreation and culture	\$ 828,684	\$ 859,878	\$ 31,194
Other expenditures	28,600	29,755	1,155

# 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	\$ 5,790,637	\$ 382,074	\$ 6,172,711
Cash at fiscal agent	108,998	115,937	224,935
Investments	<u>3,333,287</u>	<u>-</u>	3,333,287
<b>Total Statement of Net Assets</b>	<b><u>\$ 9,232,922</u></b>	<b><u>\$ 498,011</u></b>	
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			<u>99,149</u>
<b>Total deposits and investments</b>			<b><u>\$ 9,830,082</u></b>

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

Bank deposits (checking accounts, savings accounts and certificate of deposits)	\$ 9,605,147
Cash with fiscal agent	<u>224,935</u>
<b>Total deposits</b>	<b><u>\$ 9,830,082</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 \$9,775,000 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

The composition of receivables is as follows as of March 31, 2011:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 103,303	\$ 959,662	\$ 2,013
Taxes receivable	133,722	-	-
Interest receivable	4,673	47,696	-
Due from customer	-	-	-
Due from other governmental units	<u>95,686</u>	<u>-</u>	<u>-</u>
<b>Total Statement of Net Assets</b>	<b><u>\$ 337,384</u></b>	<b><u>\$ 1,007,358</u></b>	<b><u>\$ 2,013</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

Capital assets activity for the year ended March 31, 2011, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance</b>
<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>886,577</u>	<u>568,127</u>	<u>-</u>	<u>(886,577)</u>	<u>568,127</u>
Total capital assets not being depreciated	<u>18,779,440</u>	<u>568,127</u>	<u>-</u>	<u>(886,577)</u>	<u>18,460,990</u>
Capital assets being depreciated					
Land improvements	5,571,216	56,268	(2,301)	617,785	6,242,968
Infrastructure	1,110,938	275,795	-	268,792	1,655,525
Buildings and improvements	9,741,752	-	(81,034)	-	9,660,718
Machinery and equipment	2,788,894	149,900	(75,538)	-	2,863,256
Vehicles	<u>2,451,151</u>	<u>22,101</u>	<u>-</u>	<u>-</u>	<u>2,473,252</u>
Total capital assets being depreciated	<u>21,663,951</u>	<u>504,064</u>	<u>(158,873)</u>	<u>886,577</u>	<u>22,895,719</u>
Less accumulated depreciation for					
Land improvements	(1,991,452)	(208,200)	2,301	-	(2,197,351)
Infrastructure	(106,157)	(47,536)	-	-	(153,693)
Buildings and improvements	(3,651,667)	(241,831)	81,034	-	(3,812,464)
Machinery and equipment	(1,842,413)	(204,035)	75,538	-	(1,970,910)
Vehicles	<u>(1,506,716)</u>	<u>(166,222)</u>	<u>-</u>	<u>-</u>	<u>(1,672,938)</u>
Total accumulated depreciation	<u>(9,098,405)</u>	<u>(867,824)</u>	<u>158,873</u>	<u>-</u>	<u>(9,807,356)</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	\$ 12,565,546	\$ (363,760)	\$ -	\$ 886,577	\$ 13,088,363
<b>Governmental activities capital assets, net of depreciation</b>	<b><u>\$ 31,344,986</u></b>	<b><u>\$ 204,367</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,549,353</u></b>
<b>Business-type activities</b>					
Capital assets not being depreciated					
Land	609,468	-	-	-	609,468
Construction-in-progress	<u>168,461</u>	<u>-</u>	<u>-</u>	<u>(168,461)</u>	<u>-</u>
Total capital assets not being depreciated	<u>777,929</u>	<u>-</u>	<u>-</u>	<u>(168,461)</u>	<u>609,468</u>
Capital assets being depreciated					
Land improvements	13,866,410	5,633	-	87,404	13,959,447
Buildings and improvements	7,190,614	-	-	-	7,190,614
System improvements	22,366,458	918,966	-	81,057	23,366,481
Machinery & equipment	<u>1,656,703</u>	<u>69,532</u>	<u>(13,467)</u>	<u>-</u>	<u>1,712,768</u>
Total capital assets being depreciated	<u>45,080,185</u>	<u>994,131</u>	<u>(13,467)</u>	<u>168,461</u>	<u>46,229,310</u>
Less accumulated depreciation for					
Land improvements	(1,547,704)	(672,178)	-	-	(2,219,882)
Buildings and improvements	(4,603,248)	(193,799)	-	-	(4,797,047)
System improvements	(12,657,273)	(644,274)	-	-	(13,301,547)
Machinery & equipment	<u>(1,123,822)</u>	<u>(101,610)</u>	<u>13,467</u>	<u>-</u>	<u>(1,211,965)</u>
Total accumulated depreciation	<u>(19,932,047)</u>	<u>(1,611,861)</u>	<u>13,467</u>	<u>-</u>	<u>(21,530,441)</u>
Total capital assets being depreciated, net of depreciation	<u>25,148,138</u>	<u>(617,730)</u>	<u>-</u>	<u>168,461</u>	<u>24,698,869</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>\$ 25,926,067</u></b>	<b><u>\$ (617,730)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 25,308,337</u></b>
<b><u>Component Unit</u></b>					
Capital assets not being depreciated – land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated					
Land improvements	2,327,296	-	(1,220)	-	2,326,076
Buildings and improvements	3,942,877	17,440	-	-	3,960,317
Machinery and equipment	<u>100,354</u>	<u>-</u>	<u>(28,235)</u>	<u>-</u>	<u>72,119</u>
Total capital assets being depreciated	<u>6,370,527</u>	<u>17,440</u>	<u>(29,455)</u>	<u>-</u>	<u>6,358,512</u>
Less accumulated depreciation for					
Land improvements	(1,025,812)	(81,216)	1,220	-	(1,105,808)
Buildings and improvements	(1,566,065)	(105,818)	-	-	(1,671,883)
Machinery and equipment	<u>(61,659)</u>	<u>(7,265)</u>	<u>28,235</u>	<u>-</u>	<u>(40,689)</u>
Total accumulated depreciation	<u>(2,653,536)</u>	<u>(194,299)</u>	<u>29,455</u>	<u>-</u>	<u>(2,818,380)</u>
Total capital assets being depreciated, net of depreciation	<u>3,716,991</u>	<u>(176,859)</u>	<u>-</u>	<u>-</u>	<u>3,540,132</u>
<b>Component unit capital assets, net of depreciation</b>	<b><u>\$ 4,640,062</u></b>	<b><u>\$ (176,859)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,463,203</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

<b>Governmental activities</b>	
General government	\$ 143,709
Public safety	73,556
Public works	368,439
Recreation and culture	106,216
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>175,904</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 867,824</u></b>
 <b>Business-type activities</b>	
Electric utility	\$ 515,285
Sewage disposal	216,185
Water utility	214,628
Marina	657,575
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	<u>8,188</u>
<b>Total depreciation expense – business-type activities</b>	<b><u>\$ 1,611,861</u></b>

Depreciation expense for the component unit, included in the Statement of Net Assets, was \$194,299 for 2010.

### D. Payables and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of March 31, 2010:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit</b>
Accounts payable	\$ 139,622	\$ 341,075	\$ 8,839
Accrued expenses	129,354	126,269	512
Customer deposits	-	113,034	-
Checks issued in excess of cash	<u>61,720</u>	<u>-</u>	<u>-</u>
<b>Total accounts payable and accrued expenses</b>	<b><u>\$ 330,696</u></b>	<b><u>\$ 577,378</u></b>	<b><u>\$ 9,351</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### E. Interfund receivables, payables and transfers

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, 2011.

The Water Utility Enterprise Fund advanced \$138,500 to the Motor Pool Internal Service Fund during the City's fiscal year ending March 31, 2009 to cover a large portion of the groomer that was purchased during the year. The advance is to be repaid over ten years with interest charged at 1%. During the year ended March 31, 2011, \$14,097 of the advance was repaid. The balance of the advance as of March 31, 2011, is \$76,153.

The composition of interfund balances is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>		
	<u>General Fund</u>	<u>Internal Service Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 37,583	\$ 37,583
Sewer Fund	6,168	-	6,168
Marina Fund	-	7,967	7,967
Internal Service Funds	<u>53,474</u>	<u>-</u>	<u>53,474</u>
<b>Total</b>	<b><u>\$ 59,642</u></b>	<b><u>\$ 45,550</u></b>	<b><u>\$ 105,192</u></b>

Interfund receivable and payable balances were established to cover temporary cash deficits.

Interfund transfers consisted of the following at March 31, 2011:

<u>Transfers in</u>	<u>Transfers out</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>
General Fund	\$ -	\$ -	\$ -
Airport	55,000	15,000	-
Nonmajor Governmental Funds	65,000	294,245	40,300
Electric Utility	-	5,633	-
Sewer Disposal Utility	-	91,354	-
Water Utility	-	332,848	-
Internal Service	<u>66,000</u>	<u>15,000</u>	<u>14,400</u>
<b>Total transfers</b>	<b><u>\$ 186,000</u></b>	<b><u>\$ 754,080</u></b>	<b><u>\$ 54,700</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

<u>Transfers in</u>	<u>Transfers out</u>			<u>Total Transfers</u>
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Marina</u>	
General Fund	\$ 2,500	\$ -	\$ -	\$ 2,500
Airport	-	-	-	70,000
Nonmajor Governmental Funds	-	-	-	399,545
Electric Utility	-	-	-	5,633
Sewer Disposal Utility	-	-	-	91,354
Water Utility	-	-	-	332,848
Internal Service	117,600	29,500	7,967	250,467
<b>Total transfers</b>	<b><u>\$ 120,100</u></b>	<b><u>\$ 29,500</u></b>	<b><u>\$ 7,967</u></b>	<b><u>\$ 1,152,347</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.

### 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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

General obligation bonds, installment purchase agreements, and loans are direct obligations and pledge the full faith and credit of the City. The bonds are issued as 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	5.6%	\$ 77,289
General government – loan (MDOT)	3.9%	<u>44,635</u>
		<b><u>\$ 121,924</u></b>
<b>Business-Type Activities</b>		
Marina – Limited tax general obligation bonds	4.0% - 4.2%	<b><u>\$ 5,350,000</u></b>
<b>Component Unit – Downtown Development Authority</b>		
General obligation limited tax bond	3.4%	\$ 825,000
Installment purchase	2.8%	<u>114,349</u>
		<b><u>\$ 939,349</u></b>

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

<u>Year Ending March 31,</u>	<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>
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	17,192	967	255,000	181,295	-	-
2017-2021	-	-	1,585,000	731,075	-	-
2022-2026	-	-	2,220,000	347,570	-	-
2027	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>10,500</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 121,924</u></b>	<b><u>\$ 17,954</u></b>	<b><u>\$5,350,000</u></b>	<b><u>\$2,084,620</u></b>	<b><u>\$ 939,349</u></b>	<b><u>\$ 57,339</u></b>



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

*Changes in long-term debt.* Long-term debt activity for the year ended March 31, 2011, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
Installment purchase agreements	\$ 90,369	\$ -	\$ (13,080)	\$ 77,289	\$ 13,815
Loans	54,767	-	(10,132)	44,635	10,527
Compensated absences – sick leave	115,818	58,438	(48,590)	125,666	-
Compensated absences – vacation	167,188	124,371	(144,205)	147,354	-
<b>Total governmental activities</b>	<b>428,142</b>	<b>182,809</b>	<b>(216,007)</b>	<b>394,944</b>	<b>24,342</b>
<b>Business-type activities</b>					
General obligation bonds	5,450,000	-	(100,000)	5,350,000	160,000
<b>Total primary government</b>	<b>\$ 5,878,142</b>	<b>\$ 182,809</b>	<b>\$ (316,007)</b>	<b>\$ 5,744,944</b>	<b>\$ 184,342</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b><u>Component unit</u></b>					
General obligation bonds	\$ 1,085,000	\$ -	\$ (260,000)	\$ 825,000	\$ 265,000
Installment purchase agreements	228,696	-	(114,347)	114,349	114,349
<b>Total component unit</b>	<b>\$ 1,313,696</b>	<b>\$ -</b>	<b>\$ (374,347)</b>	<b>\$ 939,349</b>	<b>\$ 379,349</b>

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### 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 \$49,000 as of March 31, 2011. Projected operating lease proceeds through the year ended 2028 are as follows:

<b>Year Ended <u>March 31,</u></b>	<b><u>Amount</u></b>
2012	\$ 22,196
2013	23,066
2014	23,966
2015	24,898
2016	25,862
2017-2021	145,003
2022-2026	193,487
2027-2028	<u>91,936</u>
	<b><u>\$ 550,414</u></b>

### 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, 2011, 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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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 2010 levy were assessed and equalized at \$231,346,034 (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 2010-11 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 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 16.17% of annual covered payroll, the Police and Fire ("POLC") rate is 14.82% and the non-union rate is 17.84% 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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended March 31, 2011, the City's annual pension cost of \$356,360 for MERS represents the City's required contributions. The required contribution was determined as part of the December 31, 2009, 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, 2010, the date of the last actuarial valuation, was 28 years.

### 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>
3/31/09	\$ 340,778	100%	\$ -
3/31/10	356,180	100%	-
3/31/11	356,360	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>
12/31/10	\$ 8,225,348	\$ 11,815,094	\$ 3,589,746	70%	\$ 2,322,846	155%

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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### **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, 2011.

The City Manager received an increase of 3.5% to his base payroll during the year ended March 31, 2011. Based on the established contribution percent and payroll amount, there was a benefit of \$17,710 contributed to the plan.

### **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 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.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

<u>Year Ended December 31,</u>	<u>Campbell No. 3</u>		<u>Belle River</u>		<u>Combustion 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>
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	-	23,715	369,683	83,966	62,068	58,543	431,751	166,224
2016	474,300	-	389,070	64,557	65,136	55,284	928,506	119,841
2017-2021	-	-	840,593	66,762	381,140	221,347	1,221,733	288,109
2022-2026	-	-	-	-	492,296	110,221	492,296	110,221
2027	-	-	-	-	114,460	6,009	114,460	6,009
<b>Total</b>	<b><u>\$ 776,798</u></b>	<b><u>\$ 107,739</u></b>	<b><u>\$2,601,474</u></b>	<b><u>\$ 574,188</u></b>	<b><u>\$1,282,896</u></b>	<b><u>\$ 644,948</u></b>	<b><u>\$4,661,168</u></b>	<b><u>\$1,326,875</u></b>

During the year ended March 31, 2011, the City purchased power from the Campbell No. 3, Belle River, and Combustion Turbine No. 1 Units.

The City has a deposit of approximately \$316,000 in trust as security for annual debt payments. The City also has entered into power sales contracts with the MPPA to purchase power for the City and will be billed based on the actual amount of power purchased.

### F. Other

Through various grant agreements, the City continues to make improvements at the Airport. During the City's fiscal year ending March 31, 2011 and 2010, the City had expended approximately \$521,000 and \$583,000, respectively, on Airport projects. The total estimated costs of these projects are approximately \$1,225,000. These grants are funded primarily by federal revenues. The City also began the US 31 and Meech Street Road Project during fiscal year 2011. The project is expected to cost approximately \$460,000. The City has expended approximately \$48,000 on this project as of March 31, 2011. The project is expected to be completed in fiscal 2012.

Subsequent to year end, a former employee of the City filed a wrongful termination suit. Management believes the City terminated this employee within its rights and a favorable judgment will result. The City has liability insurance that will cover lost wages and benefits in wrongful termination lawsuits up to a maximum of \$25,000.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### G. Net assets invested in capital assets, net of related debt

The composition of net assets invested in capital assets, net of related debt as of March 31, 2011, was as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>
Capital assets, not being depreciated	\$ 18,460,990	\$ 609,468
Capital assets, net of depreciation	13,088,363	24,698,869
Noncurrent liabilities		
Due within one year	(24,342)	(160,000)
Due in more than one year	(370,602)	(5,190,000)
Advance from other funds	-	(700,000)
Add back: compensated absences	<u>273,020</u>	<u>-</u>
	<b><u>\$ 31,427,429</u></b>	<b><u>\$ 19,258,337</u></b>

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**REQUIRED SUPPLEMENTARY INFORMATION**



# CITY OF CHARLEVOIX

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS

The following schedule of employer contributions and schedule of funding progress, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### DEFINED BENEFIT PENSION PLAN

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

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
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%
3/31/11	356,360	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>
12/31/05	\$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%
12/31/10	8,225,348	11,815,094	3,589,746	70%	2,322,846	155%

## **SUPPLEMENTARY INFORMATION**

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

**MARCH 31, 2011**

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fire Truck and Ambulance</u>	<u>Industrial Park</u>	<u>Infrastructure Improvements</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 65,376	\$ 55,882	\$ 76,858	\$ 45,805	\$ 75,574
Investments	-	-	-	65,000	250,360
Accounts receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	20,092
Interest receivable	-	-	-	25	1,873
Due from other governments	33,418	11,260	-	-	-
<b>Total assets</b>	<b><u>\$ 98,794</u></b>	<b><u>\$ 67,142</u></b>	<b><u>\$ 76,858</u></b>	<b><u>\$ 110,830</u></b>	<b><u>\$ 347,899</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Checks issued in excess of cash	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	735	-	-	-	16,099
Accrued expenditures	440	295	-	-	-
<b>Total liabilities</b>	<b><u>1,175</u></b>	<b><u>295</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>16,099</u></b>
<b>Fund Balances</b>					
Reserved for:					
Perpetual care	-	-	-	-	-
Downtown parking	-	-	-	-	-
Unreserved					
Designated for subsequent years' expenditures	3,400	-	-	6,000	166,000
Undesignated - special revenue funds	94,219	66,847	-	-	-
Undesignated - capital project funds	-	-	76,858	104,830	165,800
<b>Total fund balances</b>	<b><u>97,619</u></b>	<b><u>66,847</u></b>	<b><u>76,858</u></b>	<b><u>110,830</u></b>	<b><u>331,800</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 98,794</u></b>	<b><u>\$ 67,142</u></b>	<b><u>\$ 76,858</u></b>	<b><u>\$ 110,830</u></b>	<b><u>\$ 347,899</u></b>

				<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Street Improvement</b>	<b>Mt. McSauba Improvements</b>	<b>Downtown Parking</b>		<b>Cemetery Care</b>	
\$ 252,127	\$ 5,898	\$ -		\$ 147,136	\$ 724,656
-	-	120,000		229,376	664,736
-	516	-		-	516
16,313	-	-		-	36,405
-	-	-		479	2,377
-	-	-		-	44,678
<b>\$ 268,440</b>	<b>\$ 6,414</b>	<b>\$ 120,000</b>		<b>\$ 376,991</b>	<b>\$ 1,473,368</b>

\$ -	\$ -	\$ 61,720		\$ -	\$ 61,720
-	-	-		-	16,834
-	-	-		-	735
-	-	<b>61,720</b>		-	<b>79,289</b>

-	-	-		376,991	376,991
-	-	58,280		-	58,280
24,800	6,000	-		-	206,200
-	-	-		-	161,066
243,640	414	-		-	591,542
<b>268,440</b>	<b>6,414</b>	<b>58,280</b>		<b>376,991</b>	<b>1,394,079</b>
<b>\$ 268,440</b>	<b>\$ 6,414</b>	<b>\$ 120,000</b>		<b>\$ 376,991</b>	<b>\$ 1,473,368</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	Special Revenue Funds		Capital Projects Funds		
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park	Infrastructure Improvements
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 454,514
State revenue	225,277	75,285	-	-	-
Charges for services	-	-	-	-	-
Interest	3	2	2	732	2,603
Rents and royalties	-	-	-	-	-
Other revenue	-	-	-	4,370	-
<b>Total revenues</b>	<b>225,280</b>	<b>75,287</b>	<b>2</b>	<b>5,102</b>	<b>457,117</b>
<b>Expenditures</b>					
Current					
General government	-	-	-	3,500	48,833
Public works	407,031	113,319	-	-	-
Recreation and culture	-	-	-	-	-
<b>Total expenditures</b>	<b>407,031</b>	<b>113,319</b>	<b>-</b>	<b>3,500</b>	<b>48,833</b>
<b>Revenues (under) over expenditures</b>	<b>(181,751)</b>	<b>(38,032)</b>	<b>2</b>	<b>1,602</b>	<b>408,284</b>
<b>Other financing sources (uses)</b>					
Transfers in	186,354	65,504	40,300	-	107,387
Transfers out	-	-	-	(15,000)	(616,693)
<b>Total other financing sources (uses)</b>	<b>186,354</b>	<b>65,504</b>	<b>40,300</b>	<b>(15,000)</b>	<b>(509,306)</b>
<b>Net change in fund balances</b>	<b>4,603</b>	<b>27,472</b>	<b>40,302</b>	<b>(13,398)</b>	<b>(101,022)</b>
Fund balances, beginning of year	93,016	39,375	36,556	124,228	432,822
<b>Fund balances, end of year</b>	<b>\$ 97,619</b>	<b>\$ 66,847</b>	<b>\$ 76,858</b>	<b>\$ 110,830</b>	<b>\$ 331,800</b>

					Permanent Fund	Total Nonmajor Governmental Funds
Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care			
\$ 242,439	\$ -	\$ -	\$ -	\$ -	\$ 696,953	
-	-	-	-	-	300,562	
-	-	-	5,525	-	5,525	
6	-	-	4,766	-	8,114	
-	6,188	-	-	-	6,188	
-	-	-	-	-	4,370	
<b>242,445</b>	<b>6,188</b>	<b>-</b>	<b>10,291</b>	<b>-</b>	<b>1,021,712</b>	
-	-	56,592	-	-	108,925	
-	-	-	-	-	520,350	
88,958	-	-	-	-	88,958	
<b>88,958</b>	<b>-</b>	<b>56,592</b>	<b>-</b>	<b>-</b>	<b>718,233</b>	
<b>153,487</b>	<b>6,188</b>	<b>(56,592)</b>	<b>10,291</b>	<b>-</b>	<b>303,479</b>	
-	-	-	-	-	399,545	
(107,387)	(15,000)	-	-	-	(754,080)	
<b>(107,387)</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(354,535)</b>	
<b>46,100</b>	<b>(8,812)</b>	<b>(56,592)</b>	<b>10,291</b>	<b>-</b>	<b>(51,056)</b>	
222,340	15,226	114,872	366,700	-	1,445,135	
<b>\$ 268,440</b>	<b>\$ 6,414</b>	<b>\$ 58,280</b>	<b>\$ 376,991</b>	<b>\$ -</b>	<b>\$ 1,394,079</b>	

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

**MARCH 31, 2011**

	<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	\$ 214,685	\$ 288,519	\$ 384,128	\$ 887,332
Investments	45,982	120,000	-	165,982
Accounts receivable	53	-	-	53
Interest receivable	-	495	-	495
Due from other funds	53,474	-	-	53,474
Other assets	41,536	-	-	41,536
<b>Total current assets</b>	<b>355,730</b>	<b>409,014</b>	<b>384,128</b>	<b>1,148,872</b>
<b>Noncurrent assets</b>				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets, net of accumulated depreciation	-	1,012,300	33,906	1,046,206
<b>Total noncurrent assets</b>	<b>-</b>	<b>1,032,953</b>	<b>96,906</b>	<b>1,129,859</b>
<b>Total assets</b>	<b>355,730</b>	<b>1,441,967</b>	<b>481,034</b>	<b>2,278,731</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	40,916	11,757	3,962	56,635
Accrued expenses	28,029	1,615	-	29,644
Due to other funds	45,550	-	-	45,550
<b>Total current liabilities</b>	<b>114,495</b>	<b>13,372</b>	<b>3,962</b>	<b>131,829</b>
<b>Noncurrent liabilities</b>				
Advance from other funds	-	76,153	-	76,153
Compensated absences - vacation	147,354	-	-	147,354
<b>Total noncurrent liabilities</b>	<b>147,354</b>	<b>76,153</b>	<b>-</b>	<b>223,507</b>
<b>Total liabilities</b>	<b>261,849</b>	<b>89,525</b>	<b>3,962</b>	<b>355,336</b>
<b>Net assets</b>				
Invested in capital assets	-	1,032,953	96,906	1,129,859
Unrestricted	93,881	319,489	380,166	793,536
<b>Total net assets</b>	<b>\$ 93,881</b>	<b>\$ 1,352,442</b>	<b>\$ 477,072</b>	<b>\$ 1,923,395</b>

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

**FOR THE YEAR ENDED MARCH 31, 2011**

	<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>\$ 1,891,445</b>	<b>\$ 601,033</b>	<b>\$ -</b>	<b>\$ 2,492,478</b>
<b>Operating expenses</b>				
Personnel services	1,850,547	143,688	-	1,994,235
Contractual services	20,377	18,741	8,826	47,944
Supplies	-	87,912	-	87,912
Utilities	-	8,789	-	8,789
Repairs and maintenance	-	72,160	-	72,160
Depreciation	-	175,904	8,188	184,092
Miscellaneous	2,066	1,160	-	3,226
<b>Total operating expenses</b>	<b>1,872,990</b>	<b>508,354</b>	<b>17,014</b>	<b>2,398,358</b>
<b>Operating income (loss)</b>	<b>18,455</b>	<b>92,679</b>	<b>(17,014)</b>	<b>94,120</b>
<b>Nonoperating revenues</b>				
Interest revenue	161	1,691	12	1,864
Other revenue	1,298	1,108	-	2,406
<b>Total nonoperating revenues</b>	<b>1,459</b>	<b>2,799</b>	<b>12</b>	<b>4,270</b>
<b>Income (loss) before transfers</b>	<b>19,914</b>	<b>95,478</b>	<b>(17,002)</b>	<b>98,390</b>
<b>Transfers</b>				
Transfers in	73,967	15,000	161,500	250,467
Transfers out	-	(54,700)	-	(54,700)
<b>Total transfers</b>	<b>73,967</b>	<b>(39,700)</b>	<b>161,500</b>	<b>195,767</b>
<b>Change in net assets</b>	<b>93,881</b>	<b>55,778</b>	<b>144,498</b>	<b>294,157</b>
Net assets, beginning of year	-	1,296,664	332,574	1,629,238
<b>Net assets, end of year</b>	<b>\$ 93,881</b>	<b>\$ 1,352,442</b>	<b>\$ 477,072</b>	<b>\$ 1,923,395</b>



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

**FOR THE YEAR ENDED MARCH 31, 2011**

	<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>Cash flows from operating activities</b>				
Cash received from interfund services	\$ 1,891,484	\$ 601,033	\$ -	\$ 2,492,517
Cash payments to employees	(1,902,485)	(143,041)	-	(2,045,526)
Cash payments to suppliers for goods and services	(32,004)	(198,841)	(4,864)	(235,709)
<b>Net cash (used in) provided by operating activities</b>	<b>(43,005)</b>	<b>259,151</b>	<b>(4,864)</b>	<b>211,282</b>
<b>Cash flows from noncapital financing activities</b>				
Miscellaneous income	1,298	1,108	-	2,406
Transfers in from other funds	73,967	15,000	161,500	250,467
Transfers out to other funds	-	(54,700)	-	(54,700)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>75,265</b>	<b>(38,592)</b>	<b>161,500</b>	<b>198,173</b>
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	-	(172,001)	-	(172,001)
<b>Cash flows from investing activities</b>				
Proceeds from matured investments	45,982	145,000	-	190,982
Purchase of investments	(45,982)	(120,000)	-	(165,982)
Advance from other funds	-	(14,097)	-	(14,097)
Investment income	1,008	1,978	12	2,998
<b>Net cash provided by investing activities</b>	<b>1,008</b>	<b>12,881</b>	<b>12</b>	<b>13,901</b>
<b>Net increase in cash and cash equivalents</b>	<b>33,268</b>	<b>61,439</b>	<b>156,648</b>	<b>251,355</b>
Cash and cash equivalents, beginning of year	181,417	227,080	227,480	635,977
<b>Cash and cash equivalents, end of year</b>	<b>\$ 214,685</b>	<b>\$ 288,519</b>	<b>\$ 384,128</b>	<b>\$ 887,332</b>
<b>Reconciliation of operating income (loss) to net cash (used in) provided by operating activities</b>				
Operating income (loss)	\$ 18,455	\$ 92,679	\$ (17,014)	\$ 94,120
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities				
Depreciation	-	175,904	8,188	184,092
Changes in assets and liabilities				
Accounts receivable	39	-	-	39
Other assets	(4,009)	10	-	(3,999)
Accounts payable	(5,552)	(10,089)	3,962	(11,679)
Accrued liabilities	(32,104)	647	-	(31,457)
Accrued compensated absences	(19,834)	-	-	(19,834)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (43,005)</b>	<b>\$ 259,151</b>	<b>\$ (4,864)</b>	<b>\$ 211,282</b>

**CITY OF CHARLEVOIX**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**CURRENT TAX COLLECTION FUND**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
<b>Assets</b>				
Cash (equal to undistributed receipts)	\$ 93,302	\$ 10,831,412	\$ (10,825,565)	\$ 99,149
<b>Liabilities</b>				
Undistributed receipts	\$ 93,302	\$ 10,831,412	\$ (10,825,565)	\$ 99,149

**CITY OF CHARLEVOIX**

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

**MARCH 31, 2011**

	<u>Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 382,074	\$ -	\$ 382,074
Cash with fiscal agent	115,937	-	115,937
Receivable	2,013	-	2,013
Other assets	-	13,273	13,273
Capital assets not being depreciated	-	923,071	923,071
Capital assets, net of depreciation	-	3,540,132	3,540,132
<b>Total assets</b>	<u><b>\$ 500,024</b></u>	<u><b>4,476,476</b></u>	<u><b>4,976,500</b></u>
<b>Liabilities</b>			
Accounts payable	\$ 1,694	7,657	9,351
Accrued expenditures/expenses	512	(512)	-
Noncurrent liabilities			
Long-term debt due within one year	-	379,349	379,349
Long-term debt due in more than one year	-	560,000	560,000
<b>Total liabilities</b>	<u><b>2,206</b></u>	<u><b>946,494</b></u>	<u><b>948,700</b></u>
<b>Fund balance</b>			
Restricted	497,818	(497,818)	-
<b>Total liabilities and fund balance</b>	<u><b>\$ 500,024</b></u>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		3,523,854	3,523,854
Unrestricted		503,946	503,946
<b>Total net assets</b>		<u><b>\$ 4,027,800</b></u>	<u><b>\$ 4,027,800</b></u>

**CITY OF CHARLEVOIX**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES**  
**COMPONENT UNIT**  
**FOR THE YEAR ENDED MARCH 31, 2011**

	<b>Statement of Revenues, Expenditures and Changes in Fund</b>		<b>Statement of</b>
	<b>Balance</b>	<b>Adjustments</b>	<b>Activities</b>
<b>Revenues</b>			
Property taxes	\$ 739,288	\$ -	\$ 739,288
Rents	31,074	-	31,074
Miscellaneous	5,085	-	5,085
<b>Total revenues</b>	<b>775,447</b>	<b>-</b>	<b>775,447</b>
<b>Expenditures / expenses</b>			
Current			
Other functions	259,773	217,646	477,419
Debt service			
Principal	374,347	(374,347)	-
Interest and fiscal charges	39,431	(39,431)	-
<b>Total expenditures / expenses</b>	<b>673,551</b>	<b>(196,132)</b>	<b>477,419</b>
<b>Change in fund balance / net assets</b>	<b>101,896</b>	<b>196,132</b>	<b>298,028</b>
Fund balance / net assets, beginning of year	395,922	3,333,850	3,729,772
<b>Fund balance / net assets, end of year</b>	<b>\$ 497,818</b>	<b>\$ 3,529,982</b>	<b>\$ 4,027,800</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 24, 2011

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 24, 2011. 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 2011-1: Recording, processing and summarizing accounting data**

**Criteria:** All governmental units 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 continued to make 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 management electing to have the external auditors propose the capital asset adjustments. 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 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 24, 2011.

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".