

City of Charlevoix



Fiscal Year
Ended
March 31, 2012

Financial
Statements

CITY OF CHARLEVOIX

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CITY OF CHARLEVOIX

List of Elected and Appointed Officials

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member
Council Member
Clerk

Norman Carlson
Jill Picha
Bryan Vollmer
Dennis Kusina
Lyle Gennett
Shane Cole
Greg Stevens
Carol Ochs

Appointed Officials

City Manager
Attorney
Police Chief
Fire & Ambulance
Electric & Water Superintendent
Treasurer
Street Superintendent
Wastewater/Water Superintendent
Harbormaster
Planning Director/Zoning Administrator
Recreation Director
Director of Golf

Robert Straebel
James Young
Gerard Doan
Paul Ivan
Donald Swem
Richard Brandi
Pat Elliott
James Caldwell
Hal Evans
Mike Spencer
Teresa Hart
Tom Heid

INDEPENDENT AUDITORS' REPORT

September 13, 2012

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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General 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 September 13, 2012, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and the Schedule of Employer Contributions and Funding Progress for the pension plan on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements, as 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX

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, 2012.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by approximately \$60,697,000 (net assets). Of this amount, approximately \$9,398,000 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net assets decreased by approximately \$453,000.
- At March 31, 2012, the City's governmental funds reported combined ending fund balances of approximately \$2,552,000, a decrease of approximately \$37,000 from the prior year. Approximately 44% of this total amount or approximately \$1,128,000 is unassigned and is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$1,128,000 or 35% percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

Management's Discussion and Analysis

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 10 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, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, sewage disposal, water distribution, marina operations and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool, employee fringe benefits and Department of Public Works (DPW). Because the motor pool and employee fringe benefit funds predominantly benefit governmental rather than business-type 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 utility, sewage disposal utility, water utility, marina and airport funds, each of which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlevoix, assets exceeded liabilities by \$60,697,076 at the close of the most recent fiscal year.

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

CITY OF CHARLEVOIX

Management's Discussion and Analysis

An additional portion of the City's net assets (2 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.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Cash and other assets	\$ 3,417,669	\$ 3,413,027	\$ 7,720,215	\$ 7,598,911	\$ 11,137,884	\$ 11,011,938
Capital assets net of accumulated depreciation	25,569,976	31,549,353	30,484,342	25,308,336	56,054,318	56,857,689
Total assets	28,987,645	34,962,380	38,204,557	32,907,247	67,192,202	67,869,627
Current and other liabilities	239,655	396,899	703,269	577,378	942,924	974,277
Noncurrent liabilities	264,626	394,944	5,287,576	5,350,000	5,552,202	5,744,944
Total liabilities	504,281	791,843	5,990,845	5,927,378	6,495,126	6,719,221
Net assets						
Invested in capital assets, net of related debt	25,508,823	31,427,429	24,496,766	19,258,337	50,005,589	50,685,766
Restricted	933,783	376,991	360,000	316,000	1,293,783	692,991
Unrestricted	2,040,758	2,366,117	7,356,946	7,405,533	9,397,704	9,771,650
Total net assets	\$ 28,483,364	\$ 34,170,537	\$ 32,213,712	\$ 26,979,870	\$ 60,697,076	\$ 61,150,407

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 decreased by approximately \$453,000 during the current fiscal year.

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 848,686	\$ 1,052,737	\$ 9,064,091	\$ 7,761,094	\$ 9,912,777	\$ 8,813,831
Operating grants and contributions	353,391	378,369	155,674	151,425	509,065	529,794
Capital grants and contributions	-	495,230	178,001	-	178,001	495,230
General revenues:						
Property taxes	2,895,342	2,880,352	-	-	2,895,342	2,880,352
State shared revenue	216,437	237,386	-	-	216,437	237,386
Other revenue	14,910	10,575	-	-	14,910	10,575
Unrestricted investment earnings	11,785	15,268	-	-	11,785	15,268
Gain on sale of capital assets	10,049	555	-	2,411	10,049	2,966
Total revenues	4,350,600	5,070,472	9,397,766	7,914,930	13,748,366	12,985,402
Expenses						
Legislative	47,202	38,968	-	-	47,202	38,968
General government	653,446	727,182	-	-	653,446	727,182
Public safety	1,156,750	1,090,566	-	-	1,156,750	1,090,566
Public works	573,278	926,436	-	-	573,278	926,436
Health and welfare	335,293	298,448	-	-	335,293	298,448
Recreation and culture	935,803	1,045,325	-	-	935,803	1,045,325
Other	60,458	29,755	-	-	60,458	29,755
Interest on long-term debt	-	7,219	-	-	-	7,219
Electric utility	-	-	5,401,201	5,139,640	5,401,201	5,139,640
Sewage disposal utility	-	-	1,170,767	1,186,796	1,170,767	1,186,796
Water utility	-	-	1,037,779	1,025,340	1,037,779	1,025,340
Marina	-	-	1,131,195	1,120,043	1,131,195	1,120,043
Airport	-	-	1,698,525	-	1,698,525	-
Total expenses	3,762,230	4,163,899	10,439,467	8,471,819	14,201,697	12,635,718

CITY OF CHARLEVOIX

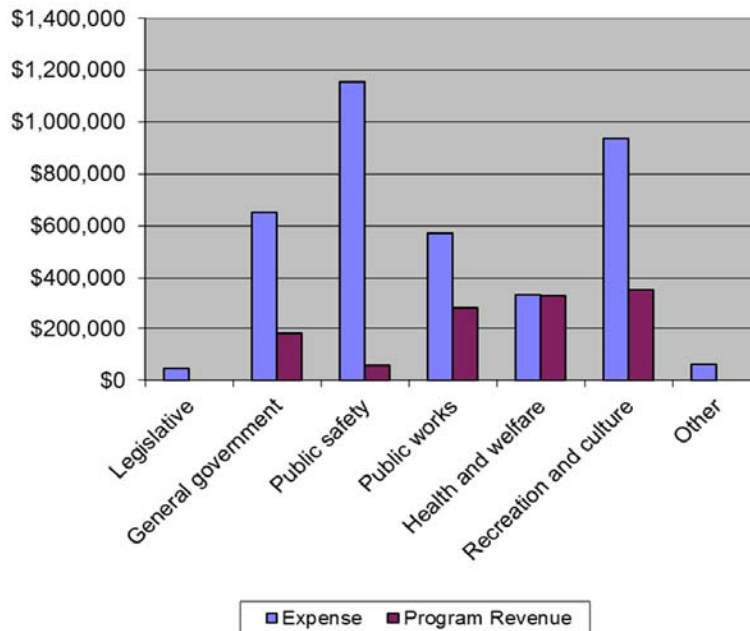
Management's Discussion and Analysis

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Change in net assets, before transfers	\$ 588,370	\$ 906,573	\$ (1,041,701)	\$ (556,889)	\$ (453,331)	\$ 349,684
Transfers	(504,704)	(433,768)	504,704	433,768	-	-
Change in net assets	83,666	472,805	(536,997)	(123,121)	(453,331)	349,684
Net assets:						
Beginning of year	28,399,698	33,697,732	32,750,709	27,102,991	61,150,407	60,800,723
End of year	\$ 28,483,364	\$ 34,170,537	\$ 32,213,712	\$ 26,979,870	\$ 60,697,076	\$ 61,150,407

Governmental activities. Governmental activities increased the City's net assets by approximately \$84,000. Key elements of this increase are as follows:

- Capital grants and contributions decreased approximately \$495,000 in governmental activities due to the change in classification of the Airport fund, which is now considered to be a proprietary fund. There was also significant changes in charges for services and expenditures due to the change in the classification of the Airport. As a result of the above noted classification change, there was a significant decrease in the change in net assets over the prior year.
- The significant change in the expenditures in public works was primarily related to the classification change of the Airport as noted above.

Expenditures and Program Revenues - Governmental Activities



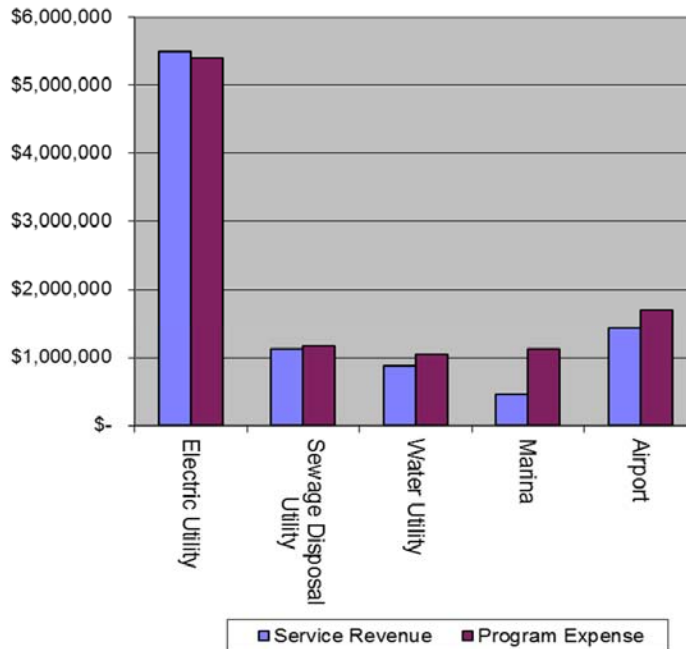
CITY OF CHARLEVOIX

Management's Discussion and Analysis

Business-type activities. Business-type activities decreased the City's net assets by approximately \$537,000. Key elements of this change are as follows:

- The Electric Fund cost for purchased power decreased by approximately \$16,000; however charges for services also decreased by approximately \$77,000, which reduced operating income by approximately \$61,000.
- The Electric Fund had income from operations before transfers of approximately \$64,000, and transfers out of approximately \$200,000, which resulted in a decrease in net assets of approximately \$96,000.
- The Sewer Fund had a net loss from operations which was not covered by transfers. The higher costs which created the loss were due to higher wages than prior year. Future rate increases have been projected to properly fund operation costs.
- The Water Utility and Marina Funds had a net loss from operations before transfers of approximately \$174,000 and \$546,000, respectively. Depreciation expense in those funds was approximately \$230,000 and \$657,000, respectively and was the primary reason for the net loss from operations before transfers.
- The Airport Fund had a net loss from operations before transfers of approximately \$474,000. Depreciation expense in that fund was approximately \$228,000 which contributed to the net loss from operations. The City also had incurred an increase of approximately \$169,000 in personnel services due to the City taking over the operations of the airport. There were also costs associated with the elimination of the fixed based operator (FBO) at the airport and repairs made to fuel tanks were one time expenditures in the fund for the year, impacting operational costs.
- Capital grants and contributions increased by approximately \$178,000 in business-type activities due to the change in classification of the Airport, which is now considered to be a proprietary fund. Federal Aviation Administration ("FAA") and State of Michigan grants provided approximately \$178,000 for improvements at the airport.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$2,552,000, a decrease of approximately \$37,000 in comparison with the prior year. A significant portion of the fund balances, approximately \$1,128,000, constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

CITY OF CHARLEVOIX

Management's Discussion and Analysis

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 approximately \$6,655,000 and the investment in capital assets net of related debt was approximately \$24,357,000. The Water Utility Fund had an increase in net assets for the year of approximately \$270,000 and the Electric Utility Fund, Sewage Disposal Utility Fund, Marina Fund and Airport Fund had a decrease of approximately \$96,000, \$18,000, \$665,000 and \$242,000, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, General Fund revenues and expenditures were higher than budgetary estimates. There was an increase in fund balance of approximately \$107,000 compared to a budgeted decrease of approximately \$77,000. This was a result of higher than expected revenues in the General Fund. There were no significant budget amendments made during the year.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2012, amounted to approximately \$56,054,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment and infrastructure including park facilities, roads, highways, and bridges.

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

- Utility system improvements and equipment purchases
- Meech Street engineering and construction
- Bridge Street water main construction
- Equipment purchases for the airport

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 16,932,797	\$ 17,892,863	\$ 1,569,534	\$ 609,468	\$ 18,502,331	\$ 18,502,331
Construction in progress	-	568,127	-	-	-	568,127
Land improvements	1,467,531	4,045,617	14,030,296	11,739,565	15,497,827	15,785,182
Infrastructure	1,849,702	1,501,832	-	-	1,849,702	1,501,832
Buildings and improvements	4,099,986	5,848,254	3,865,541	2,393,567	7,965,527	8,241,821
System improvements	-	-	10,265,477	10,064,933	10,265,477	10,064,933
Machinery and equipment	559,721	892,346	753,494	500,803	1,313,215	1,393,149
Vehicles	660,239	800,314	-	-	660,239	800,314
Total capital assets, net	\$ 25,569,976	\$ 31,549,353	\$ 30,484,342	\$ 25,308,336	\$ 56,054,318	\$ 56,857,689

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

CITY OF CHARLEVOIX

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of approximately \$98,000. 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 \$5,190,000 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 agreement of \$560,000.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchase agreement	\$ -	\$ 77,289	\$ 63,649	\$ -	\$ 63,649	\$ 77,289
MDOT loan	-	44,635	34,107	-	34,107	44,635
Marina limited tax general obligation bonds	-	-	5,190,000	5,350,000	5,190,000	5,350,000
Compensated absences	264,626	273,020	-	-	-	273,020
Total	\$ 264,626	\$ 394,944	\$ 5,287,756	\$ 5,350,000	\$ 5,287,756	\$ 5,744,944

Beginning April 1, 2011, the City took over the operations of the Airport. As a result of this change, the City's airport fund was reclassified from a governmental fund to a business-type activity which resulted in the reclassification of the installment purchase agreement and MDOT loan from governmental activities to business-type activities.

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 notes to the financial statement.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2012-13 fiscal year:

- The unemployment rate for the Northwest Michigan region is currently 9.3%, a decrease from 10.3% from a year ago. This compares to the state's current average unemployment rate of 9.0% and the national average rate of 8.3%.
- The Michigan economy growth is improving. The City's credit rating of AA was maintained during the year by Standard & Poor's. There have been reductions in revenues from sales tax and the City also lost population in the 2010 census which will reduce Economic Vitality Incentive Program funding by approximately \$20,000 during 2012-13. Problems with foreclosures are still occurring, although taxable values increased slightly for 2012 but some increases were negated by Michigan Tax Tribunal settlements, lowering taxable values (TV) due to the down-turn in property values.
- 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 7% in health care costs in the 2012-13 budget were factored in to the Employee Fringe Benefit ("EFB") rate applied to all funds to maintain a break-even in the related fund. The City's share could increase by approximately 12% or more due to an increase in premium costs and an additional option (Healthcare Savings Account ("HSA") 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 over time. The impact on the fund should also be less due to our caps which impact all employees contributions as premiums increase. The City Council has opted out of PA 152 for the second year in a row, since we already have caps on our healthcare costs. Rates have been quoted with an average increase of 17% without any change to benefit levels, but higher costs to the employee will encourage employees to move to the HSA high deductible plan.
- We have received the MERS (Retirement System) funding rates for next year (2012-13) and they will increase slightly; the budget estimated a 2.0% increase due to wage increases. With long term funding nearly \$3 million underfunded for all groups, the City administration has moved all employees to a "Bridge Plan" which will not impact current costs, but will reduce long-term liabilities by over \$900,000 and provide future savings by reducing future benefits for employees.

CITY OF CHARLEVOIX

Management's Discussion and Analysis

- The operating millage of 9.05 mills remained the same as was adopted in the 2011-12 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) remained at .9 mills to reflect the cost to pickup and compost leaves, brush and the City's spring cleanup program. Overall, the proposed tax rates are the same and maintain current service levels. The City has met all three levels of the Economic Vitality Incentive Program (EVIP) and will receive their full share of revenue sharing from the State of Michigan.
- Sewer rates increased 3%, 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 increased 2% to comply with a cost of service study that was completed in the 2011-12 budget year.
- Employee Fringe Benefit Fund rates were increased by 5% for all funds for 2012-13. There is a need to build a reserve into this fund due to rising healthcare costs and to enable additional set asides to reduce unfunded liability for pensions.
- Wage rates increased for CWA union workers by 2% per their labor contract as did non-union employees' wages and police/fire contractual employees.
- Rates were also increased for the golf course, Mt. McSauba ski area, marina, ambulance and airport 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 or by visiting our Web site at www.cityofcharlevoix.org for additional supplemental budgetary information.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX

Statement of Net Assets

March 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,422,426	\$ 3,393,720	\$ 5,816,146	\$ 525,790
Cash with fiscal agent	-	105,798	105,798	-
Investments	877,228	1,794,260	2,671,488	50,000
Receivables, net	300,336	1,047,223	1,347,559	2,670
Internal balances	(239,665)	239,665	-	-
Other assets	57,344	469,549	526,893	8,839
Restricted cash	-	360,000	360,000	-
Restricted investments for replacement	-	310,000	310,000	-
Capital assets not being depreciated	16,932,797	1,569,534	18,502,331	923,071
Capital assets being depreciated, net	8,637,179	28,914,808	37,551,987	3,345,609
Total assets	28,987,645	38,204,557	67,192,202	4,855,979
Liabilities				
Accounts payable and accrued liabilities	221,603	673,645	895,248	6,825
Unearned revenue	18,052	29,624	47,676	-
Long-term liabilities:				
Due within one year	-	205,530	205,530	275,000
Due in more than one year	264,626	5,082,046	5,346,672	285,000
Total liabilities	504,281	5,990,845	6,495,126	566,825
Net assets				
Invested in capital assets, net of related debt	25,508,823	24,496,766	50,005,589	3,708,680
Restricted for:				
Perpetual care	384,881	-	384,881	-
Street improvements	421,545	-	421,545	-
Capital projects	127,357	-	127,357	-
Downtown development	-	-	-	580,474
Restricted for deposits with MPPA	-	360,000	360,000	-
Unrestricted	2,040,758	7,356,946	9,397,704	-
Total net assets	\$ 28,483,364	\$ 32,213,712	\$ 60,697,076	\$ 4,289,154

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

CITY OF CHARLEVOIX

Statement of Activities

For the Year Ended March 31, 2012

FUNCTIONS / PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 47,202	\$ -	\$ -	\$ -	\$ (47,202)
General government	653,446	180,927	-	-	(472,519)
Public safety	1,156,750	42,075	13,873	-	(1,100,802)
Public works	573,278	-	280,928	-	(292,350)
Health and welfare	335,293	331,768	-	-	(3,525)
Recreation and culture	935,803	293,916	58,590	-	(583,297)
Other expenditures	60,458	-	-	-	(60,458)
Total governmental activities	3,762,230	848,686	353,391	-	(2,560,153)
Business-type activities:					
Electric utility	5,401,201	5,460,353	40,005	-	99,157
Sewage disposal utility	1,170,767	1,121,226	1,475	-	(48,066)
Water utility	1,037,779	863,757	14,194	-	(159,828)
Marina	1,131,195	365,792	100,000	-	(665,403)
Airport	1,698,525	1,252,963	-	178,001	(267,561)
Total business-type activities	10,439,467	9,064,091	155,674	178,001	(1,041,701)
Total primary government	\$14,201,697	\$9,912,777	\$ 509,065	\$ 178,001	\$ (3,601,854)
Component unit					
Downtown Development Authority					
	\$ 503,526	\$ 37,955	\$ 11,831	\$ -	\$ (453,740)

Continued...

CITY OF CHARLEVOIX

Statement of Activities

For the Year Ended March 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net expense	<u>\$ (2,560,153)</u>	<u>\$ (1,041,701)</u>	<u>\$ (3,601,854)</u>	<u>\$ (453,740)</u>
General revenues:				
Property taxes	2,895,342	-	2,895,342	715,094
State shared revenues	216,437	-	216,437	-
Other revenue	14,910	-	14,910	-
Unrestricted investment earnings	11,785	-	11,785	-
Gain on sale of capital assets	10,049	-	10,049	-
Transfers - internal activities	<u>(504,704)</u>	<u>504,704</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>2,643,819</u>	<u>504,704</u>	<u>3,148,523</u>	<u>715,094</u>
Change in net assets	83,666	(536,997)	(453,331)	261,354
Net assets, beginning of year, as restated	<u>28,399,698</u>	<u>32,750,709</u>	<u>61,150,407</u>	<u>4,027,800</u>
Net assets, end of year	<u><u>\$ 28,483,364</u></u>	<u><u>\$ 32,213,712</u></u>	<u><u>\$60,697,076</u></u>	<u><u>\$ 4,289,154</u></u>

Concluded

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

FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX

Balance Sheet

Governmental Funds

March 31, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 901,837	\$ 838,031	\$ 1,739,868
Investments	305,000	376,246	681,246
Accounts receivable, net	89,074	-	89,074
Taxes receivable	82,273	28,951	111,224
Interest receivable	4,157	1,738	5,895
Other assets	14,156	-	14,156
Due from other funds	37,583	5,080	42,663
Due from other governments	46,025	47,384	93,409
Total assets	\$1,480,105	\$ 1,297,430	\$ 2,777,535
Liabilities			
Accounts payable	\$ 70,097	\$ 39,423	\$ 109,520
Accrued expenditures	30,698	2,324	33,022
Due to other funds	59,642	5,080	64,722
Deferred revenue	17,512	540	18,052
Total liabilities	177,949	47,367	225,316
Fund balances (Note 18)			
Nonspendable	14,156	384,881	399,037
Restricted	-	548,902	548,902
Assigned	160,100	316,280	476,380
Unassigned	1,127,900	-	1,127,900
Total fund balances	1,302,156	1,250,063	2,552,219
Total liabilities and fund balances	\$1,480,105	\$ 1,297,430	\$ 2,777,535

Continued...

CITY OF CHARLEVOIX

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
March 31, 2012

Fund balances - total governmental funds	\$ 2,552,219
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets, net	24,674,954
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net assets of governmental activities accounted for in internal service funds	1,537,603
Net assets allocated to business-type activities from governmental activities internal service funds	(164,377)
Certain liabilities, such as loans, are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences - sick leave	<u>(117,035)</u>
Net assets of governmental activities	<u>\$28,483,364</u>
	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, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,221,802	\$ 673,540	\$ 2,895,342
State revenue	217,756	279,605	497,361
Licenses and permits	4,251	-	4,251
Charges for services	691,089	5,525	696,614
Fines and forfeits	22,612	-	22,612
Interest	5,369	4,920	10,289
Rents and royalties	113,872	5,844	119,716
Other revenue	71,278	9,321	80,599
Total revenues	3,348,029	978,755	4,326,784
Expenditures			
Current:			
Legislative	47,189	-	47,189
General government	498,594	43,570	542,164
Public safety	1,093,968	-	1,093,968
Public works	218,017	594,605	812,622
Health and welfare	335,777	-	335,777
Recreation and culture	860,168	77,014	937,182
Other expenditures	60,458	-	60,458
Total expenditures	3,114,171	715,189	3,829,360
Revenues over expenditures	233,858	263,566	497,424
Other financing sources (uses)			
Transfers in	2,500	556,998	559,498
Transfers out	(129,078)	(964,580)	(1,093,658)
Total other financing uses	(126,578)	(407,582)	(534,160)
Net change in fund balances	107,280	(144,016)	(36,736)
Fund balances, beginning of year as restated	1,194,876	1,394,079	2,588,955
Fund balances, end of year	\$ 1,302,156	\$ 1,250,063	\$ 2,552,219

Continued...

CITY OF CHARLEVOIX

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended March 31, 2012

Net change in fund balances - total governmental funds \$ (36,736)

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

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

Capital outlay	451,797
Depreciation expense	(417,142)

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

Change in net assets from governmental activities accounted for in internal service funds	91,280
Change in net assets from governmental activities accounted for in internal service funds charged to business type activities.	(14,164)

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

Net decrease in compensated absences - sick leave	<u>8,631</u>
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Change in net assets of governmental activities	<u>\$ 83,666</u>
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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 Balances

Budget and Actual - General Fund
For the Year Ended March 31, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Taxes:				
Property taxes	\$ 1,996,100	\$ 1,996,100	\$ 2,185,645	\$ 189,545
Payments in lieu of taxes	3,300	3,300	4,331	1,031
Interest and penalties on taxes	17,000	17,000	11,042	(5,958)
Tax collection fees	15,500	15,500	20,784	5,284
Total taxes	2,031,900	2,031,900	2,221,802	189,902
State revenue	236,000	236,000	217,756	(18,244)
Licenses and permits	3,000	3,000	4,251	1,251
Charges for services:				
Fire runs	43,000	43,000	42,075	(925)
Ambulance runs	237,000	237,000	248,644	11,644
Ambulance contracts	99,100	99,100	83,124	(15,976)
Cemetery	27,500	27,500	44,614	17,114
Golf course	150,700	150,700	126,987	(23,713)
Summer sports	8,000	8,000	7,301	(699)
Day camp	54,900	54,900	57,120	2,220
Winter sports	60,000	60,000	45,291	(14,709)
Basketball	1,200	1,200	825	(375)
Skate park	-	-	4,224	4,224
Parking	25,500	25,500	24,568	(932)
Other	3,800	3,800	6,316	2,516
Total charges for services	710,700	710,700	691,089	(19,611)
Fines and forfeitures	15,900	15,900	22,612	6,712
Investment earnings	8,000	8,000	5,369	(2,631)
Rents and royalties:				
City hall	90,800	90,800	92,116	1,316
Boat launch/harbor building	21,000	21,000	21,756	756
Total rents and royalties	111,800	111,800	113,872	2,072
Other revenues	30,700	30,700	71,278	40,578
Total revenues	3,148,000	3,148,000	3,348,029	200,029

Continued...

CITY OF CHARLEVOIX

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended March 31, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Legislative:				
City council	\$ 44,200	\$ 40,200	\$ 47,189	\$ 6,989
General government:				
Mayor	9,000	6,350	4,991	(1,359)
City manager	91,200	83,898	85,064	1,166
Elections	19,100	18,144	16,238	(1,906)
Assessor	92,500	72,380	70,967	(1,413)
City attorney	74,300	67,500	63,955	(3,545)
City clerk	42,300	49,859	41,455	(8,404)
City treasurer	57,400	53,018	50,493	(2,525)
City hall and grounds	107,300	97,029	91,165	(5,864)
Cemetery	77,500	76,748	74,266	(2,482)
Total general government	570,600	524,926	498,594	(26,332)
Public safety:				
Police department	725,000	725,447	733,155	7,708
Parking law enforcement	8,400	7,642	7,990	348
Fire department	288,000	287,955	274,579	(13,376)
Planning department	77,300	78,932	78,244	(688)
Total public safety	1,098,700	1,099,976	1,093,968	(6,008)
Public works:				
Highways and streets	11,000	11,000	19,780	8,780
Leaf pick up	114,000	116,387	111,771	(4,616)
Waste collection	38,600	44,852	31,008	(13,844)
Brush pickup	53,900	49,276	55,458	6,182
Total public works	217,500	221,515	218,017	(3,498)

Continued...

CITY OF CHARLEVOIX

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended March 31, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Current (concluded):				
Health and welfare:				
Ambulance	\$ 330,300	\$ 348,876	\$ 335,777	\$ (13,099)
Recreation and culture:				
Parks	327,200	349,842	371,112	21,270
Recreation administration	35,100	32,100	31,056	(1,044)
City beaches	31,500	26,129	26,156	27
Ball fields	16,000	17,776	18,424	648
Day camp	49,200	54,020	54,364	344
Ice rink	6,200	5,892	4,923	(969)
Mt. McSauba ski hill	121,200	108,344	101,631	(6,713)
Basketball and volleyball	1,000	600	964	364
Golf course	195,900	217,766	218,237	471
Boat launch	18,800	18,374	18,416	42
Skate park	6,200	4,905	5,060	155
Community promotion	9,400	9,109	9,825	716
Total recreation and culture	817,700	844,857	860,168	15,311
Other expenditures	45,000	27,884	60,458	32,574
Total expenditures	3,124,000	3,108,234	3,114,171	5,937
Revenues over expenditures	24,000	39,766	233,858	194,092
Other financing sources (uses)				
Transfers in	2,500	2,500	2,500	-
Transfers out	(95,000)	(119,700)	(129,078)	9,378
Total other financing uses	(92,500)	(117,200)	(126,578)	9,378
Net change in fund balance	(68,500)	(77,434)	107,280	184,714
Fund balance, beginning of year	1,194,876	1,194,876	1,194,876	-
Fund balance, end of year	\$ 1,126,376	\$ 1,117,442	\$ 1,302,156	\$ 184,714

Concluded

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

CITY OF CHARLEVOIX

Statement of Net Assets

Proprietary Funds

March 31, 2012

	Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,373,317	\$ 375,352	\$ 46,713	\$ 13,546
Investments	1,484,206	190,256	44,798	75,000
Cash at fiscal agent	-	-	-	105,798
Accounts receivable, net	794,238	122,894	74,432	-
Interest receivable	15,463	989	1,044	16
Due from other funds	-	6,168	2,540	7,967
Other assets	335	477	276	34,156
Inventory	330,716	-	73,705	-
Total current assets	4,998,275	696,136	243,508	236,483
Noncurrent assets:				
Restricted cash	360,000	-	-	-
Restricted investments for replacement	160,000	75,000	75,000	-
Advance to other funds	860,000	-	61,153	-
Capital assets, not being depreciated	187,613	345,125	13,730	-
Capital assets, net of accumulated depreciation	4,802,739	3,924,520	4,622,911	10,705,459
Total noncurrent assets	6,370,352	4,344,645	4,772,794	10,705,459
Total assets	11,368,627	5,040,781	5,016,302	10,941,942
Liabilities				
Current liabilities:				
Accounts payable	327,912	33,682	17,085	3,167
Accrued expenses	9,990	5,069	5,319	106,438
Customer deposits	67,558	-	-	50,657
Current portion of bonds and notes payable	-	-	-	180,000
Due to other funds	-	-	2,540	-
Deferred revenue	1,021	3,458	-	-
Total current liabilities	406,481	42,209	24,944	340,262
Noncurrent liabilities:				
Advance from other funds	-	-	-	700,000
Bonds payable, net of current portion	-	-	-	5,010,000
Notes payable, net of current portion	-	-	-	-
Compensated absences	-	-	-	-
Total noncurrent liabilities	-	-	-	5,710,000
Total liabilities	406,481	42,209	24,944	6,050,262
Net Assets				
Invested in capital assets, net of related debt	4,990,352	4,269,645	4,636,641	4,815,459
Restricted for:				
Deposits with MPPA	360,000	-	-	-
Unrestricted (deficit)	5,611,794	728,927	354,717	76,221
Total net assets	\$ 10,962,146	\$ 4,998,572	\$ 4,991,358	\$ 4,891,680

Airport	Total	Internal Service Funds
\$ 47,502	\$ 2,856,430	\$ 1,219,848
-	1,794,260	195,982
-	105,798	-
38,093	1,029,657	384
-	17,512	404
-	16,675	53,474
315	35,559	43,188
29,569	433,990	-
<u>115,479</u>	<u>6,289,881</u>	<u>1,513,280</u>
-	360,000	-
-	310,000	-
-	921,153	-
960,066	1,506,534	83,653
<u>4,782,395</u>	<u>28,838,024</u>	<u>951,153</u>
<u>5,742,461</u>	<u>31,935,711</u>	<u>1,034,806</u>
<u>5,857,940</u>	<u>38,225,592</u>	<u>2,548,086</u>
41,049	422,895	73,676
5,719	132,535	5,385
-	118,215	-
25,530	205,530	-
-	2,540	45,550
25,145	29,624	-
<u>97,443</u>	<u>911,339</u>	<u>124,611</u>
160,000	860,000	61,153
-	5,010,000	-
72,046	72,046	-
-	-	147,591
<u>232,046</u>	<u>5,942,046</u>	<u>208,744</u>
<u>329,489</u>	<u>6,853,385</u>	<u>333,355</u>
5,644,885	24,356,982	973,653
-	360,000	-
(116,434)	6,655,225	1,241,078
<u>\$ 5,528,451</u>	<u>\$ 31,372,207</u>	<u>\$ 2,214,731</u>

Continued ...

CITY OF CHARLEVOIX

Reconciliation

Net Assets of Enterprise Funds
to Net Assets of Business-Type Activities
March 31, 2012

Net assets - total enterprise funds	\$31,372,207
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Amounts reported for *business-type activities* in the statement of net assets are different because:

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

Net assets of business-type activities accounted for in business-type activity internal service funds	677,128
Net assets allocated to business-type activities from governmental activities internal service funds	<u>164,377</u>

Net assets of business-type activities	<u>\$32,213,712</u>
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Concluded

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

CITY OF CHARLEVOIX

Statement of Revenue, Expenditures and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended March 31, 2012

	Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,460,353	\$ 1,121,226	\$ 863,757	\$ 365,792
Operating expenses				
Purchased power	3,489,978	-	-	-
Fuel purchases	-	-	-	-
Personnel services	893,323	462,237	525,828	134,469
Contractual services	85,652	111,464	23,566	37,266
Insurance	17,117	8,731	4,919	2,509
Building rental	47,208	21,804	21,804	-
Equipment rental	82,636	76,994	47,935	902
Supplies	94,686	71,234	58,389	8,115
Utilities	45,462	135,906	49,491	52,578
Repairs and maintenance	25,911	60,946	66,490	9,425
Depreciation	529,283	213,236	230,022	657,380
Amortization	-	-	-	2,440
Miscellaneous	85,453	11,632	9,331	7,120
Total operating expenses	5,396,709	1,174,184	1,037,775	912,204
Operating income (loss)	63,644	(52,958)	(174,018)	(546,412)
Nonoperating revenues (expenses)				
Interest revenue	25,363	1,404	1,827	-
Gain on sale of capital assets	-	-	-	-
Other revenue	14,642	-	12,367	100,000
Federal revenue	-	-	-	-
State revenue	-	-	-	-
Interest expense	-	-	-	(218,892)
Total nonoperating revenues (expenses)	40,005	1,404	14,194	(118,892)
Income (loss) before transfers	103,649	(51,554)	(159,824)	(665,304)
Transfers				
Transfers in	96	69,131	459,510	9,700
Transfers out	(200,100)	(35,255)	(29,500)	(9,378)
Total transfers	(200,004)	33,876	430,010	322
Change in net assets	(96,355)	(17,678)	270,186	(664,982)
Net assets, beginning of year, as restated	11,058,501	5,016,250	4,721,172	5,556,662
Net assets, end of year	\$ 10,962,146	\$ 4,998,572	\$ 4,991,358	\$ 4,891,680



Airport	Total	Internal Service Funds
\$ 1,219,386	\$ 9,030,514	\$ 2,613,416
-	3,489,978	-
978,167	978,167	-
219,932	2,235,789	2,169,304
129,340	387,288	44,599
12,490	45,766	-
-	90,816	-
9,640	218,107	-
4,864	237,288	105,945
26,926	310,363	8,407
16,738	179,510	84,793
228,323	1,858,244	176,048
-	2,440	-
67,085	180,621	1,827
1,693,505	10,214,377	2,590,923
(474,119)	(1,183,863)	22,493
-	28,594	1,567
-	-	10,049
33,577	160,586	12,271
171,791	171,791	-
6,210	6,210	-
(4,847)	(223,739)	-
206,731	143,442	23,887
(267,388)	(1,040,421)	46,380
25,000	563,437	339,256
-	(274,233)	(94,300)
25,000	289,204	244,956
(242,388)	(751,217)	291,336
5,770,839	32,123,424	1,923,395
\$ 5,528,451	\$ 31,372,207	\$ 2,214,731

Continued...

CITY OF CHARLEVOIX

Reconciliation

Change in Net Assets of Enterprise Funds
to Change in Net Assets of Business-Type Activities
For the Year Ended March 31, 2012

Change in net assets - total enterprise funds	\$ (751,217)
---	--------------

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

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

Change in net assets of internal service funds charged to business-type activities	200,056
Change in net assets of internal service funds accounted for in governmental activities but charged to business-type activities	<u>14,164</u>

Change in net assets of business-type activities	<u>\$ (536,997)</u>
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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, 2012

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,445,495	\$ 1,109,166	\$ 860,699	\$ 373,526
Cash received from interfund services	-	-	-	-
Cash payments to employees	(888,375)	(461,019)	(525,326)	(137,590)
Cash payments to suppliers for goods and services	(3,954,742)	(490,926)	(316,662)	(117,941)
Net cash provided by (used in) operating activities	602,378	157,221	18,711	117,995
Cash flows from noncapital financing activities				
Other revenue	14,642	-	12,367	100,000
Federal revenue	-	-	-	-
State revenue	-	-	-	-
Advance from other funds	-	-	-	-
Repayment on advance to other funds	-	-	-	-
Transfers in	96	69,131	459,510	9,700
Transfers out	(200,100)	(35,255)	(29,500)	(9,378)
Net cash (used in) provided by noncapital financing activities	(185,362)	33,876	442,377	100,322
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(366,638)	(92,029)	(561,921)	-
Bond principal payments	-	-	-	(160,000)
Bond interest payments	-	-	-	(218,891)
Net cash used in capital and related financing activities	(366,638)	(92,029)	(561,921)	(378,891)
Cash flows from investing activities				
Proceeds from matured investments	1,713,573	230,573	123,150	26,612
Purchase of investments	(1,644,206)	(265,256)	(119,797)	(75,000)
Advance to other funds	(160,000)	-	-	-
Receipt of amounts from advance to other funds	-	-	15,000	-
Interest revenue	56,377	849	1,207	345
Net cash (used in) provided by investing activities	(34,256)	(33,834)	19,560	(48,043)
Net increase (decrease) in cash and cash equivalents	16,122	65,234	(81,273)	(208,617)
Cash and cash equivalents, beginning of year	2,717,195	310,118	127,986	327,961
Cash and cash equivalents, including cash at fiscal agent and restricted cash, end of year	2,733,317	375,352	46,713	119,344
Cash at fiscal agent, end of year	-	-	-	(105,798)
Restricted cash, end of year	(360,000)	-	-	-
Cash and cash equivalents, end of year	\$ 2,373,317	\$ 375,352	\$ 46,713	\$ 13,546

Airport	Total	Internal Service Funds
\$ 1,225,960	\$ 9,014,846	\$ -
-	-	2,613,085
(219,932)	(2,232,242)	(2,193,326)
<u>(1,253,835)</u>	<u>(6,134,106)</u>	<u>(230,182)</u>
<u>(247,807)</u>	<u>648,498</u>	<u>189,577</u>
33,577	160,586	12,271
171,791	171,791	-
6,210	6,210	-
160,000	160,000	-
-	-	(15,000)
25,000	563,437	339,256
-	(274,233)	(94,300)
<u>396,578</u>	<u>787,791</u>	<u>242,227</u>
-	-	10,049
(94,683)	(1,115,271)	(80,995)
(24,348)	(184,348)	-
(4,848)	(223,739)	-
<u>(123,879)</u>	<u>(1,523,358)</u>	<u>(70,946)</u>
-	2,093,908	165,982
-	(2,104,259)	(195,982)
-	(160,000)	-
-	15,000	-
-	58,778	1,658
<u>-</u>	<u>(96,573)</u>	<u>(28,342)</u>
24,892	(183,642)	332,516
<u>22,610</u>	<u>3,505,870</u>	<u>887,332</u>
47,502	3,322,228	1,219,848
-	(105,798)	-
-	(360,000)	-
<u>\$ 47,502</u>	<u>\$ 2,856,430</u>	<u>\$ 1,219,848</u>

Continued...

CITY OF CHARLEVOIX

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2012

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 63,644	\$ (52,958)	\$ (174,018)	\$ (546,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	529,283	213,236	230,022	657,380
Amortization	-	-	-	2,440
Changes in assets and liabilities				
Accounts receivable	(14,364)	(15,518)	(3,058)	1,038
Other assets	(335)	(477)	(276)	-
Inventory	(31,064)	-	(20,198)	-
Accounts payable	50,760	8,262	(14,263)	(26)
Accrued expenses	4,948	1,218	502	(3,121)
Customer deposits	(1,515)	-	-	6,696
Accrued compensated absences	-	-	-	-
Deferred revenue	1,021	3,458	-	-
Net cash provided by (used in) operating activities	<u>\$ 602,378</u>	<u>\$ 157,221</u>	<u>\$ 18,711</u>	<u>\$ 117,995</u>

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



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

\$ (474,119) \$ (1,183,863) \$ 22,493

228,323 1,858,244 176,048

- 2,440 -

(18,904) (50,806) (331)

2,073 985 (1,652)

(29,569) (80,831) -

20,240 64,973 17,041

(996) 2,551 (24,259)

- 5,181 -

- - 237

25,145 29,624 -

\$ (247,807) \$ 648,498 \$ 189,577

Concluded

CITY OF CHARLEVOIX

■ Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2012

Assets	
Cash	<u>\$ 85,320</u>
Liabilities	
Undistributed receipts	<u>\$ 85,320</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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 the legally separate component unit for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF CHARLEVOIX

Notes To Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF CHARLEVOIX

Notes To Financial Statements

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

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

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

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

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

Assets, Liabilities and Equity

Deposits and investments

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

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

Investments are reported at fair value.

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, 2012, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$30,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

CITY OF CHARLEVOIX

Notes To Financial Statements

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

Inventories

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

Restricted cash and investments

The City has entered into contracts with the Michigan Public Power Agency ("MPPA") for the City's electric entitlement and has a deposit of approximately \$360,000 in trust as security for annual debt payments as part of an agreement. This amount is classified as restricted cash on the electric enterprise funds statement of net assets because of the limited use. Other certain resources of the City's enterprise funds have been set aside to fund capital asset replacements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

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

CITY OF CHARLEVOIX

Notes To Financial Statements

Compensated absences

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

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net 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. 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.

Fund equity

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

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

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

The City is reporting deficit unrestricted net assets of \$116,434 in the Airport enterprise fund; however, total net assets are not in a deficit. Management is looking at ways to increase the rate used for internal charges in this fund so that they can eliminate the related deficit.

CITY OF CHARLEVOIX

Notes To Financial Statements

Interfund transactions

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

Use of Estimates

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

2. Budgetary Information

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

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

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

3. Excess of Expenditures Over Budget

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
Legislative	\$ 40,200	\$ 47,189	\$ 6,989
Recreation and culture	844,857	860,168	15,311
Other expenditures	27,884	60,458	32,574
Transfers out	119,700	129,078	9,378

CITY OF CHARLEVOIX

Notes To Financial Statements

4. Deposits and Investments

Following is a reconciliation of deposit and investment balances as of March 31, 2012:

	Primary Government	Component Unit	Total
Statement of Net Assets			
Cash and cash equivalents	\$ 6,176,146	\$ 525,790	\$ 6,701,936
Cash at fiscal agent	105,798	-	105,798
Investments	2,981,488	50,000	3,031,488
Total Statement of Net Assets	\$ 9,263,432	\$ 575,790	
Statement of Fiduciary Net Assets			
Cash and cash equivalents			85,320
Total deposits and investments			\$ 9,924,542
Deposits and investments			
Bank deposits (checking accounts, savings accounts and certificate of deposits)			\$ 9,818,744
Cash with fiscal agent			105,798
Total deposits and investments			\$ 9,924,542

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, substantially all of the City's bank balance of approximately \$9,880,000 was insured and collateralized.

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

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

CITY OF CHARLEVOIX

Notes To Financial Statements

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

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts 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.

5. Receivables

Receivables are comprised of the following as of March 31, 2012:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 89,458	\$ 1,029,657	\$ 2,670
Taxes receivable	111,224	-	-
Interest receivable	6,245	17,566	-
Due from other governmental units	93,409	-	-
	<u>\$ 300,336</u>	<u>\$ 1,047,223</u>	<u>\$ 2,670</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

6. Capital Assets

Primary Government

Capital assets activity for the primary government for the year ended March 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 17,892,863	\$ -	\$ -	\$ (960,066)	\$ 16,932,797
Construction-in-process	568,127	-	-	(568,127)	-
	<u>18,460,990</u>	<u>-</u>	<u>-</u>	<u>(1,528,193)</u>	<u>16,932,797</u>
Capital assets being depreciated:					
Land improvements	6,242,968	16,507	-	(3,079,357)	3,180,118
Infrastructure	1,655,525	409,915	-	-	2,065,440
Buildings and improvements	9,660,718	25,375	-	(2,266,871)	7,419,222
Machinery and equipment	2,863,256	8,870	(123,810)	(753,248)	1,995,068
Vehicles	2,473,252	19,525	(47,089)	-	2,445,688
	<u>22,895,719</u>	<u>480,192</u>	<u>(170,899)</u>	<u>(6,099,476)</u>	<u>17,105,536</u>
Less accumulated depreciation for:					
Land improvements	(2,197,351)	(84,257)	-	569,021	(1,712,587)
Infrastructure	(153,693)	(62,045)	-	-	(215,738)
Buildings and improvements	(3,812,464)	(176,878)	-	670,106	(3,319,236)
Machinery and equipment	(1,970,910)	(100,688)	123,810	512,441	(1,435,347)
Vehicles	(1,672,938)	(159,600)	47,089	-	(1,785,449)
	<u>(9,807,356)</u>	<u>(583,468)</u>	<u>170,899</u>	<u>1,751,568</u>	<u>(8,468,357)</u>
Total capital assets being depreciated, net	<u>13,088,363</u>	<u>(103,276)</u>	<u>-</u>	<u>(4,347,908)</u>	<u>8,637,179</u>
Governmental activities capital assets, net	<u>\$31,549,353</u>	<u>\$ (103,276)</u>	<u>\$ -</u>	<u>\$(5,876,101)</u>	<u>\$25,569,976</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 609,468	\$ -	\$ -	\$ 960,066	\$ 1,569,534
Capital assets being depreciated:					
Land improvements	13,959,447	7,301	-	3,647,484	17,614,232
Buildings and improvements	7,190,614	130,519	-	2,266,871	9,588,004
System improvements	23,366,480	867,329	-	-	24,233,809
Machinery and equipment	1,712,768	162,722	-	753,248	2,628,738
	<u>46,229,309</u>	<u>1,167,871</u>	<u>-</u>	<u>6,667,603</u>	<u>54,064,783</u>
Less accumulated depreciation for:					
Land improvements	(2,219,882)	(795,033)	-	(569,021)	(3,583,936)
Buildings and improvements	(4,797,047)	(255,310)	-	(670,106)	(5,722,463)
System improvements	(13,301,547)	(666,785)	-	-	(13,968,332)
Machinery and equipment	(1,211,965)	(150,838)	-	(512,441)	(1,875,244)
	<u>(21,530,441)</u>	<u>(1,867,966)</u>	<u>-</u>	<u>(1,751,568)</u>	<u>(25,149,975)</u>
Total capital assets being depreciated, net	<u>24,698,868</u>	<u>(700,095)</u>	<u>-</u>	<u>4,916,035</u>	<u>28,914,808</u>
Business-type activities capital assets, net	<u>\$25,308,336</u>	<u>\$ (700,095)</u>	<u>\$ -</u>	<u>\$ 5,876,101</u>	<u>\$30,484,342</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

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

Depreciation of governmental activities by function	
General government	\$ 141,555
Public safety	72,630
Public works	99,176
Recreation and culture	103,781
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>166,326</u>
	<u>\$ 583,468</u>
Depreciation of business-type activities by function	
Electric utility	\$ 529,283
Sewage disposal utility	213,236
Water utility	230,022
Marina	657,380
Airport	228,323
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>9,722</u>
	<u>\$ 1,867,966</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated:					
Land Improvements	2,326,076	-	-	-	2,326,076
Buildings and improvements	3,960,317	-	-	-	3,960,317
Machinery and equipment	72,119	-	-	-	72,119
	<u>6,358,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,358,512</u>
Less accumulated depreciation for:					
Land improvements	(1,105,808)	(80,495)	-	-	(1,186,303)
Buildings and improvements	(1,671,883)	(106,980)	-	-	(1,778,863)
Machinery and equipment	(40,689)	(7,048)	-	-	(47,737)
	<u>(2,818,380)</u>	<u>(194,523)</u>	<u>-</u>	<u>-</u>	<u>(3,012,903)</u>
Total capital assets being depreciated, net	<u>3,540,132</u>	<u>(194,523)</u>	<u>-</u>	<u>-</u>	<u>3,345,609</u>
Component unit capital assets, net	<u>\$ 4,463,203</u>	<u>\$ (194,523)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,268,680</u>

Depreciation expense for the component unit, included in the statement of activities, was \$194,523 for fiscal 2012.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following as of March 31, 2012:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 183,196	\$ 422,895	\$ 2,046
Accrued expenses	38,407	132,535	4,779
Customer deposits	-	118,215	-
	<u>\$ 221,603</u>	<u>\$ 673,645</u>	<u>\$ 6,825</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

8. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of March 31, 2012, was as follows:

Due to and from primary government funds

	Due to Other Funds	Due From Other Funds
General fund	\$ 59,642	\$ 37,583
Nonmajor governmental funds	5,080	5,080
Sewage disposal utility fund	-	6,168
Water utility fund	2,540	2,540
Marina fund	-	7,967
Internal service funds	45,550	53,474
	<u>\$ 112,812</u>	<u>\$ 112,812</u>

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

Advances to and from other funds

	Advance to Other Funds	Advance From Other Funds
Electric utility fund	\$ 860,000	\$ -
Water utility fund	61,153	-
Marina fund	-	700,000
Airport fund	-	160,000
Internal service funds	-	61,153
	<u>\$ 921,153</u>	<u>\$ 921,153</u>

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%; however, no payments have been made on this advance to date. Beginning in fiscal 2012, due to current market interest rates, the interest rate on the above advance was changed to .5%. No repayments were made on this advance during the year ended March 31, 2012. During fiscal year ended March 31, 2012, the Electric Utility Enterprise Fund advanced a total of \$160,000 to the Airport Enterprise Fund to cover initial costs of airport operations and for cash flow purposes. Management expects to establish repayment terms in fiscal 2013.

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%. Beginning in fiscal 2012, due to current market interest rates, the interest rate on the above advance was changed to .5%. During the year ended March 31, 2012, \$15,000 of the advance was repaid. The balance of the advance as of March 31, 2012, is \$61,153.

CITY OF CHARLEVOIX

Notes To Financial Statements

For the year ended March 31, 2012, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 2,500	\$ 129,078
Nonmajor governmental funds	556,998	964,580
Electric utility fund	96	200,100
Sewer disposal utility fund	69,131	35,255
Water utility fund	459,510	29,500
Marina fund	9,700	9,378
Airport fund	25,000	-
Internal service funds	339,256	94,300
	<u>\$ 1,462,191</u>	<u>\$ 1,462,191</u>

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

9. Long-Term Debt

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

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

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

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:

Purpose	Interest Rates	Amount
Business-type activities		
Marina - limited tax general obligation bonds	4.0% - 4.2%	\$ 5,190,000
Airport - installment purchase	5.6%	63,468
Airport - loan (MDOT)	3.9%	34,108
		<u>\$ 5,287,576</u>
Component Unit - Downtown Development Authority		
General obligation limited tax bond	3.4%	<u>\$ 560,000</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

Long-term debt activity for the year ended March 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences - sick leave	\$ 125,666	\$ 36,652	\$ (45,283)	\$ 117,035	\$ -
Compensated absences - vacation	147,354	158,917	(158,680)	147,591	-
Total governmental activities	273,020	195,569	(203,963)	264,626	-
Business-type activities					
General obligation bonds	5,350,000	-	(160,000)	5,190,000	180,000
Installment purchase agreement	77,289	-	(13,821)	63,468	14,592
Loan	44,635	-	(10,527)	34,108	10,938
Total business-type activities	5,471,924	-	(184,348)	5,287,576	205,530
Total primary government	\$ 5,744,944	\$ 195,569	\$ (388,311)	\$ 5,552,202	\$ 205,530
Component unit - DDA					
General obligation bonds	\$ 825,000	\$ -	\$ (265,000)	\$ 560,000	\$ 275,000
Installment purchase agreement	114,349	-	(114,349)	-	-
Total component unit	\$ 939,349	\$ -	\$ (379,349)	\$ 560,000	\$ 275,000

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

CITY OF CHARLEVOIX

Notes To Financial Statements

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

Year Ending March 31,	Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest
2013	\$ 205,530	\$ 212,896	\$ 275,000	\$ 18,912
2014	236,776	203,849	285,000	9,976
2015	268,084	193,538	-	-
2016	272,186	182,262	-	-
2017	275,000	170,695	-	-
2018-2022	1,700,000	665,375	-	-
2023-2027	2,330,000	253,075	-	-
Total	\$ 5,287,576	\$ 1,881,690	\$ 560,000	\$ 28,888

10. Operating Lease and Commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note for the construction of a storage building, which approximates \$49,000 as of March 31, 2012. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2013	\$ 23,066
2014	23,966
2015	24,898
2016	25,862
2017	26,861
2018-2022	150,543
2023-2027	206,325
2028	46,697
	\$ 528,218

11. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers’ compensation), as well as medical benefits provided to employees. During the year ended March 31, 2012, 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.

CITY OF CHARLEVOIX

Notes To Financial Statements

12. Property Taxes

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

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2011 levy was assessed and equalized at \$237,392,417 (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 2011-12 was 9.05 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional .09 mills levied for refuse.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Charlevoix, which are within the DDA district. The DDA also has an operating levy of 2.0000 mills. Property taxes are recognized in the fiscal year in which they are levied.

13. Defined Benefit Pension Plan

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

Beginning in January 2012, MERS actuarial services were brought in-house. Due to this change, the December 31, 2011 annual actuarial valuation reports will be published later than in recent years. The information below was based on the December 31, 2010 valuation report as that was the last report available at the time of issuing this report. See also Note 20 for changes to the City's defined benefit pension plan after March 31, 2012.

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.

For the year ended March 31, 2012, the City's annual pension cost of \$381,096 for MERS represents the City's required contributions. The required contribution is determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year (1% for calendar year 2011 - 2014), 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.

CITY OF CHARLEVOIX

Notes To Financial Statements

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/10	\$ 356,180	100%	\$ -
3/31/11	356,360	100%	-
3/31/12	381,096	100%	-

Funded Status and Funding Progress. As of December 31, 2010, the most recent valuation date, the Plan was 70% funded. The actuarial accrued liability for benefits was \$11,815,094 and the actuarial value of assets was \$8,225,348, resulting in an unfunded actuarial accrued liability of \$3,589,746, which means the plan is under funded. The covered payroll (annual payroll for active employees covered by the Plan) was \$2,322,846 and the ratio for the UAAL to the covered payroll was 155%.

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

14. Defined Contribution Plan

The City provided pension benefits to its City Manager through a defined contribution plan "City of Charlevoix City Manager Money Purchase Plan." In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.60% of the City Manager's gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2012.

The City Manager received an increase of 1% to his base payroll during the year ended March 31, 2012. Based on the established contribution percent and payroll amount, there was a benefit of \$18,091 contributed to the plan.

15. Entitlement Commitment

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

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

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

CITY OF CHARLEVOIX

Notes To Financial Statements

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

Year Ended December 31,	Campbell No. 3		Belle River	
	Principal	Interest	Principal	Interest
2013	\$ 154,411	\$ 26,996	\$ 333,713	\$ 119,928
2014	-	23,715	351,285	102,408
2015	-	23,715	369,683	83,966
2016	474,300	-	389,070	64,557
2017	-	-	409,530	44,131
2018-2022	-	-	431,063	22,631
Total	\$ 628,711	\$ 74,426	\$ 2,284,344	\$ 437,621

Year Ended December 31,	Combustion Turbine No. 1		Total	
	Principal	Interest	Principal	Interest
2013	\$ 55,932	\$ 64,564	\$ 544,056	\$ 211,488
2014	58,764	61,628	410,049	187,751
2015	62,068	58,543	431,751	166,224
2016	65,136	55,284	928,506	119,841
2017	68,676	51,865	478,206	95,996
2018-2022	401,200	201,338	832,263	223,969
2023-2027	518,020	84,376	518,020	84,376
Total	\$ 1,229,796	\$ 577,598	\$ 4,142,851	\$ 1,089,645

During the year ended March 31, 2012, the City purchased power from the Campbell No. 3, Belle River, and Combustion Turbine No. 1 Units.

The City has a deposit of approximately \$360,000 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.

16. Other Commitments

Through various grant agreements, the City continues to make improvements at the Airport. During the City's fiscal year ending March 31, 2012, the City had expended approximately \$180,000 on Airport projects. The total estimated costs of Airport projects in progress as of March 31, 2012 related to grants funded primarily by federal revenue is approximately \$1,081,000. The majority of the remaining costs on these projects related to one grant for the design and purchase of snow removal equipment. The project is expected to be completed in fiscal 2013.

CITY OF CHARLEVOIX

Notes To Financial Statements

17. 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, 2012, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 1,569,534	\$ 923,071
Capital assets, net of depreciation	8,637,179	28,914,808	3,345,609
	<u>25,569,976</u>	<u>30,484,342</u>	<u>4,268,680</u>
Related debt:			
Due within one year	-	205,530	275,000
Due in more than one year	264,626	5,082,046	285,000
Advance from other funds	61,153	700,000	-
Less: compensated absences	(264,626)	-	-
	<u>61,153</u>	<u>5,987,576</u>	<u>560,000</u>
Invested in capital assets, net of related debt	<u>\$ 25,508,823</u>	<u>\$ 24,496,766</u>	<u>\$ 3,708,680</u>

CITY OF CHARLEVOIX

Notes To Financial Statements

18. Fund Balances - Governmental Funds

The City adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Perpetual care	\$ -	\$ 384,881	\$ 384,881
Prepays	14,156	-	14,156
Total nonspendable:	14,156	384,881	399,037
Restricted for:			
Special revenue funds:			
Major streets	-	111,636	111,636
Local streets	-	113,364	113,364
Capital project funds:			
Infrastructure improvements	-	127,357	127,357
Street improvements	-	196,545	196,545
Total restricted	-	548,902	548,902
Assigned for:			
Capital project funds:			
Fire Truck and Ambulance	-	146,928	146,928
Industrial Park	-	108,200	108,200
Mt. McSauba Improvements	-	6,079	6,079
Downtown Parking	-	55,073	55,073
Subsequent year expenditures	158,400	-	158,400
Day camp	1,700	-	1,700
Total assigned	160,100	316,280	476,380
Unassigned	1,127,900	-	1,127,900
Total fund balances, governmental funds	\$ 1,302,156	\$ 1,250,063	\$ 2,552,219

CITY OF CHARLEVOIX

Notes To Financial Statements

19. Restatement

As described in Note 18, the City adopted the provisions of GASB Statement No. 54 in the current year. While the classifications of fund balance in the City's various governmental funds were revised, the implementation of this standard had no effect on total net assets for governmental activities.

Beginning net assets in governmental activities decreased by \$5,770,839 and there was a corresponding increase in beginning net assets in business-type activities and airport enterprise fund which was the result of reclassifying the City's airport fund from a governmental fund to a proprietary fund.

20. Subsequent Events

Subsequent to year end, the City changed certain of the benefits under the Municipal Employees Retirement System of Michigan ("MERS") defined benefit pension plan. The changes were effective April 1, 2012 for employees of the Police and Fire ("POLC") and non-union group and effective June 1, 2012 for employees of the Communication Workers of America ("CWA") union.



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.

Schedule of Employer Contributions MERS Defined Benefit Pension Plan

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
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%
3/31/12	381,096	100%

Schedule of Funding Progress MERS Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	\$ 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%

CITY OF CHARLEVOIX

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2012

	Special Revenue Funds			
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 79,011	\$ 105,113	\$ 46,863	\$ 108,200
Investments	-	-	100,000	-
Taxes receivable	-	-	-	-
Interest receivable	-	-	65	-
Due from other funds	-	2,540	-	-
Due from other governments	36,254	11,130	-	-
Total assets	\$ 115,265	\$ 118,783	\$ 146,928	\$ 108,200
Liabilities				
Accounts payable	\$ 1,841	\$ 2,343	\$ -	\$ -
Accrued expenditures	1,788	536	-	-
Due to other funds	-	2,540	-	-
Deferred revenue	-	-	-	-
Total liabilities	3,629	5,419	-	-
Fund Balances				
Nonspendable	-	-	-	-
Restricted	111,636	113,364	-	-
Assigned	-	-	146,928	108,200
Total fund balances	111,636	113,364	146,928	108,200
Total liabilities and fund balances	\$ 115,265	\$ 118,783	\$ 146,928	\$ 108,200

Capital Project Funds				Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care	Total
\$ 61,745	\$ 218,088	\$ 6,619	\$ 56,214	\$ 156,178	\$ 838,031
48,878	-	-	-	227,368	376,246
16,836	12,115	-	-	-	28,951
338	-	-	-	1,335	1,738
2,540	-	-	-	-	5,080
-	-	-	-	-	47,384
<u>\$ 130,337</u>	<u>\$ 230,203</u>	<u>\$ 6,619</u>	<u>\$ 56,214</u>	<u>\$ 384,881</u>	<u>\$ 1,297,430</u>
\$ 440	\$ 33,658	\$ -	\$ 1,141	\$ -	\$ 39,423
-	-	-	-	-	2,324
2,540	-	-	-	-	5,080
-	-	540	-	-	540
<u>2,980</u>	<u>33,658</u>	<u>540</u>	<u>1,141</u>	<u>-</u>	<u>47,367</u>
-	-	-	-	384,881	384,881
127,357	196,545	-	-	-	548,902
-	-	6,079	55,073	-	316,280
<u>127,357</u>	<u>196,545</u>	<u>6,079</u>	<u>55,073</u>	<u>384,881</u>	<u>1,250,063</u>
<u>\$ 130,337</u>	<u>\$ 230,203</u>	<u>\$ 6,619</u>	<u>\$ 56,214</u>	<u>\$ 384,881</u>	<u>\$ 1,297,430</u>

CITY OF CHARLEVOIX

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended March 31, 2012

	Special Revenue Funds			
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	210,003	69,602	-	-
Charges for services	-	-	-	-
Interest	4	2	70	371
Rents and royalties	-	-	-	-
Other revenue	-	-	-	500
Total revenues	210,007	69,604	70	871
Expenditures				
Current:				
General government	-	-	-	3,501
Public works	209,503	385,102	-	-
Recreation and culture	-	-	-	-
Total expenditures	209,503	385,102	-	3,501
Revenues over (under) expenditures	504	(315,498)	70	(2,630)
Other financing sources (uses)				
Transfers in	13,513	362,015	70,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	13,513	362,015	70,000	-
Net change in fund balances	14,017	46,517	70,070	(2,630)
Fund balances, beginning of year	97,619	66,847	76,858	110,830
Fund balances, end of year	\$ 111,636	\$ 113,364	\$ 146,928	\$ 108,200

Capital Projects Funds				Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care	Total
\$ 454,951	\$ 218,589	\$ -	\$ -	\$ -	\$ 673,540
-	-	-	-	-	279,605
-	-	-	-	5,525	5,525
1,886	9	-	213	2,365	4,920
-	-	5,844	-	-	5,844
-	-	8,821	-	-	9,321
<u>456,837</u>	<u>218,598</u>	<u>14,665</u>	<u>213</u>	<u>7,890</u>	<u>978,755</u>
36,649	-	-	3,420	-	43,570
-	-	-	-	-	594,605
-	77,014	-	-	-	77,014
<u>36,649</u>	<u>77,014</u>	<u>-</u>	<u>3,420</u>	<u>-</u>	<u>715,189</u>
<u>420,188</u>	<u>141,584</u>	<u>14,665</u>	<u>(3,207)</u>	<u>7,890</u>	<u>263,566</u>
111,470	-	-	-	-	556,998
(736,101)	(213,479)	(15,000)	-	-	(964,580)
<u>(624,631)</u>	<u>(213,479)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(407,582)</u>
(204,443)	(71,895)	(335)	(3,207)	7,890	(144,016)
<u>331,800</u>	<u>268,440</u>	<u>6,414</u>	<u>58,280</u>	<u>376,991</u>	<u>1,394,079</u>
<u>\$ 127,357</u>	<u>\$ 196,545</u>	<u>\$ 6,079</u>	<u>\$ 55,073</u>	<u>\$ 384,881</u>	<u>\$ 1,250,063</u>

CITY OF CHARLEVOIX

Combining Statement of Net Assets

Internal Service Funds

March 31, 2012

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets				
Cash and cash equivalents	\$ 174,670	\$ 507,888	\$ 537,290	\$ 1,219,848
Investments	95,982	100,000	-	195,982
Accounts receivable	117	267	-	384
Interest receivable	255	95	54	404
Due from other funds	53,474	-	-	53,474
Other assets	43,145	43	-	43,188
Total current assets	367,643	608,293	537,344	1,513,280
Noncurrent assets				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets, being depreciated, net	-	874,369	76,784	951,153
Total noncurrent assets	-	895,022	139,784	1,034,806
Total assets	367,643	1,503,315	677,128	2,548,086
Liabilities				
Current liabilities				
Accounts payable	42,917	30,759	-	73,676
Accrued expenses	3,364	2,021	-	5,385
Due to other funds	45,550	-	-	45,550
Total current liabilities	91,831	32,780	-	124,611
Noncurrent liabilities				
Advance from other funds	-	61,153	-	61,153
Compensated absences - vacation	147,591	-	-	147,591
Total noncurrent liabilities	147,591	61,153	-	208,744
Total liabilities	239,422	93,933	-	333,355
Net Assets				
Invested in capital assets, net of related debt	-	833,869	139,784	973,653
Unrestricted	128,221	575,513	537,344	1,241,078
Total net assets	\$ 128,221	\$ 1,409,382	\$ 677,128	\$ 2,214,731

CITY OF CHARLEVOIX

Combining Statement of Revenues, Expenses and Changes in Net Assets

Internal Service Funds

For the Year Ended March 31, 2012

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,027,034	\$ 586,382	\$ -	\$ 2,613,416
Operating expenses				
Personnel services	2,008,747	160,557	-	2,169,304
Contractual services	22,828	15,978	5,793	44,599
Supplies	-	105,945	-	105,945
Utilities	-	8,407	-	8,407
Repairs and maintenance	-	84,793	-	84,793
Depreciation	-	166,326	9,722	176,048
Miscellaneous	1,428	399	-	1,827
Total operating expenses	2,033,003	542,405	15,515	2,590,923
Operating (loss) income	(5,969)	43,977	(15,515)	22,493
Nonoperating revenues				
Interest revenue	605	891	71	1,567
Gain on sale of capital assets	-	10,049	-	10,049
Other revenue	10,948	1,323	-	12,271
Total nonoperating revenues	11,553	12,263	71	23,887
Income (loss) before transfers	5,584	56,240	(15,444)	46,380
Transfers				
Transfers in	28,756	95,000	215,500	339,256
Transfers out	-	(94,300)	-	(94,300)
Total transfers	28,756	700	215,500	244,956
Changes in net assets	34,340	56,940	200,056	291,336
Net assets, beginning of year	93,881	1,352,442	477,072	1,923,395
Net assets, end of year	\$ 128,221	\$ 1,409,382	\$ 677,128	\$ 2,214,731

CITY OF CHARLEVOIX

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2012

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$2,026,970	\$ 586,115	\$ -	\$2,613,085
Cash payments to employees	(2,033,175)	(160,151)	-	(2,193,326)
Cash payments to suppliers for goods and services	(23,864)	(196,563)	(9,755)	(230,182)
Net cash (used in) provided by operating activities	(30,069)	229,401	(9,755)	189,577
Cash flows from noncapital financing activities				
Miscellaneous receipts	10,948	1,323	-	12,271
Transfers in	28,756	95,000	215,500	339,256
Transfers out	-	(94,300)	-	(94,300)
Net cash provided by noncapital financing activities	39,704	2,023	215,500	257,227
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	10,049	-	10,049
Purchase of capital assets	-	(28,395)	(52,600)	(80,995)
Net cash used in capital and related financing activities	-	(18,346)	(52,600)	(70,946)
Cash flows from investing activities				
Proceeds from matured investments	45,982	120,000	-	165,982
Purchase of investments	(95,982)	(100,000)	-	(195,982)
Repayment on advance from other funds	-	(15,000)	-	(15,000)
Investment income	350	1,291	17	1,658
Net cash (used in) provided by investing activities	(49,650)	6,291	17	(43,342)
Net (decrease) increase in cash and cash equivalents	(40,015)	219,369	153,162	332,516
Cash and cash equivalents, beginning of year	214,685	288,519	384,128	887,332
Cash and cash equivalents, end of year	\$ 174,670	\$ 507,888	\$ 537,290	\$1,219,848

Continued

CITY OF CHARLEVOIX

Combining Statement of Cash Flows

Internal Service Funds
For the Year Ended March 31, 2012

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities				
Operating (loss) income	\$ (5,969)	\$ 43,977	\$ (15,515)	\$ 22,493
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities				
Depreciation	-	166,326	9,722	176,048
Changes in assets and liabilities				
Accounts receivable	(64)	(267)		(331)
Other assets	(1,609)	(43)	-	(1,652)
Accounts payable	2,001	19,002	(3,962)	17,041
Accrued expenses	(24,665)	406	-	(24,259)
Accrued compensated absences	237	-	-	237
Net cash (used in) provided by operating activities	<u>\$ (30,069)</u>	<u>\$ 229,401</u>	<u>\$ (9,755)</u>	<u>\$ 189,577</u>

Concluded

CITY OF CHARLEVOIX

Balance Sheet and Statement of Net Assets

Component Unit

March 31, 2012

	Balance Sheet	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 525,790	\$ -	\$ 525,790
Investments	50,000	-	50,000
Receivables	2,670	-	2,670
Other assets	126	8,713	8,839
Capital assets not being depreciated	-	923,071	923,071
Capital assets, being depreciation, net	-	3,345,609	3,345,609
	<hr/>	<hr/>	<hr/>
Total assets	\$ 578,586	4,277,393	4,855,979
Liabilities			
Accounts payable	\$ 2,046	4,779	6,825
Accrued expenditures/expenses	852	(852)	-
Noncurrent liabilities			
Long-term debt due within one year	-	275,000	275,000
Long-term debt due in more than one year	-	285,000	285,000
	<hr/>	<hr/>	<hr/>
Total liabilities	2,898	563,927	566,825
Fund balance			
Restricted	575,688	(575,688)	
	<hr/>	<hr/>	
Total liabilities and fund balance	\$ 578,586		
Net assets			
Invested in capital assets, net of related debt		3,708,680	3,708,680
Restricted		580,474	580,474
		<hr/>	<hr/>
Total net assets		\$ 4,289,154	\$ 4,289,154

CITY OF CHARLEVOIX

Statement of Revenue, Expenditures and Changes in Fund Balance and Statement of Activities Component Unit For the Year Ended March 31, 2012

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 715,094	\$ -	\$ 715,094
Rents	37,955	-	37,955
Miscellaneous	11,831	-	11,831
Total revenues	<u>764,880</u>	<u>-</u>	<u>764,880</u>
Expenditures / expenses			
Current			
Other functions	279,211	224,315	503,526
Debt service			
Principal	379,349	(379,349)	-
Interest and fiscal charges	28,450	(28,450)	-
Total expenditures / expenses	<u>687,010</u>	<u>(183,484)</u>	<u>503,526</u>
Change in fund balance / net assets	77,870	183,484	261,354
Fund balance / net assets, beginning of year	<u>497,818</u>	<u>3,529,982</u>	<u>4,027,800</u>
Fund balance / net assets, end of year	<u>\$ 575,688</u>	<u>\$ 3,713,466</u>	<u>\$ 4,289,154</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 13, 2012

The Honorable Mayor and
Members of the 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 13, 2012. 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

Management of the City of Charlevoix, is responsible for establishing and maintaining effective 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 opinions 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 City'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 2012-FS-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 as well as some of the other necessary adjusting journal entries to its general ledger. Over time, the City plans to 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 September 13, 2012.

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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.