

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2013

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

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

Appointed Officials

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

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INDEPENDENT AUDITORS' REPORT

September 11, 2013

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City") as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2013, and the respective changes in financial position and, where applicable, cash flows 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.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, our report dated September 11, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Charlevoix, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2013.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by approximately \$60,666,000 (net position). Of this amount, approximately \$9,915,000 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net position decreased by approximately \$31,000.
- At March 31, 2013, the City's governmental funds reported combined ending fund balances of approximately \$2,232,000, a decrease of approximately \$320,000 from the prior year. Approximately 47% of this total amount or approximately \$1,049,000 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 \$1,049,000 or 30% percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

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.

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric utility, sewage disposal utility, water utility, marina and airport funds, each of which are considered to be major funds of the City.

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$60,666,000 at the close of the most recent fiscal year.

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

An additional portion of the City's net position (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (16 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Cash and other assets	\$ 3,152,242	\$ 3,417,669	\$ 8,417,751	\$ 7,720,215	\$ 11,569,993	\$ 11,137,884
Capital assets, net	26,160,154	25,569,976	29,452,667	30,484,342	55,612,821	56,054,318
Total assets	29,312,396	28,987,645	37,870,418	38,204,557	67,182,814	67,192,202
Current and other liabilities	407,390	239,655	751,851	703,269	1,159,241	942,924
Noncurrent liabilities	275,744	264,626	5,082,036	5,287,576	5,357,780	5,552,202
Total liabilities	683,134	504,281	5,833,887	5,990,845	6,517,021	6,495,126
Net position						
Net investment in capital assets	26,160,154	25,508,823	23,670,631	24,496,766	49,830,785	50,005,589
Restricted	919,671	933,783	-	360,000	919,671	1,293,783
Unrestricted	1,549,437	2,040,758	8,365,900	7,356,946	9,915,337	9,397,704
Total net position	\$ 28,629,262	\$ 28,483,364	\$ 32,036,531	\$ 32,213,712	\$ 60,665,793	\$ 60,697,076

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

The City's net position decreased by approximately \$31,000 during the current fiscal year.

	Change in Net position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 896,048	\$ 848,686	\$ 9,538,627	\$ 9,064,091	\$ 10,434,675	\$ 9,912,777
Operating grants and contributions	392,547	353,391	308,055	155,674	700,602	509,065
Capital grants and contributions	-	-	242,221	178,001	242,221	178,001
General revenues:						
Property taxes	2,898,942	2,895,342	-	-	2,898,942	2,895,342
State shared revenue	216,297	216,437	-	-	216,297	216,437
Other revenue	20,332	14,910	-	-	20,332	14,910
Unrestricted investment earnings	5,081	11,785	-	-	5,081	11,785
Gain on sale of capital assets	-	10,049	-	-	-	10,049
Total revenues	4,429,247	4,350,600	10,088,903	9,397,766	14,518,150	13,748,366
Expenses:						
Legislative	41,227	47,202	-	-	41,227	47,202
General government	686,198	653,446	-	-	686,198	653,446
Public safety	1,184,487	1,156,750	-	-	1,184,487	1,156,750
Public works	753,187	753,278	-	-	753,187	753,278
Health and welfare	383,352	335,293	-	-	383,352	335,293
Recreation and culture	952,644	935,803	-	-	952,644	935,803
Other	82,404	60,458	-	-	82,404	60,458
Electric utility	-	-	5,417,859	5,401,201	5,417,859	5,401,201
Sewage disposal utility	-	-	1,093,678	1,170,767	1,093,678	1,170,767
Water utility	-	-	1,048,440	1,037,779	1,048,440	1,037,779
Marina	-	-	1,110,476	1,131,195	1,110,476	1,131,195
Airport	-	-	1,795,481	1,698,525	1,795,481	1,698,525
Total expenses	4,083,499	3,762,230	10,465,934	10,439,467	14,549,433	14,201,697

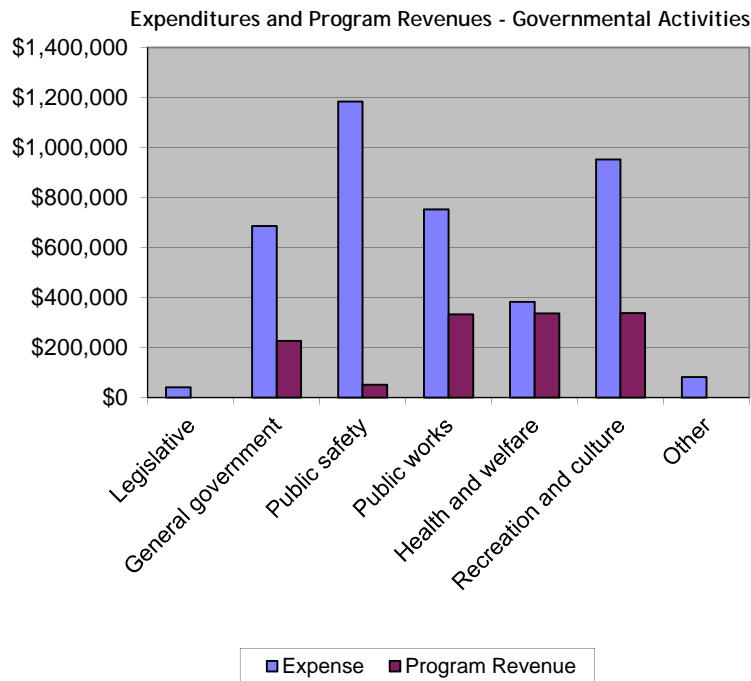
CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Change in net position, before transfers	\$ 345,748	\$ 588,370	\$ (377,031)	\$ (1,041,701)	\$ (31,283)	\$ (453,331)
Transfers	(199,850)	(504,704)	199,850	504,704	-	-
Change in net position	145,898	83,666	(177,181)	(536,997)	(31,283)	(453,331)
Net position:						
Beginning of year	28,483,364	28,399,698	32,213,712	32,750,709	60,697,076	61,150,407
End of year	<u>\$ 28,629,262</u>	<u>\$ 28,483,364</u>	<u>\$ 32,036,531</u>	<u>\$ 32,213,712</u>	<u>\$ 60,665,793</u>	<u>\$ 60,697,076</u>

Governmental activities. Governmental activities increased the City's net position by approximately \$146,000. Key elements of this increase are as follows:

- Reduction in the transfers to other funds made in the 2012-13 fiscal year when compared to the transfers that were necessary in the 2011-12 fiscal year to provide funding to the other City functions.
- The significant change in the expenditures in public works was primarily related to the additional street maintenance that occurred in fiscal year 2012-13.

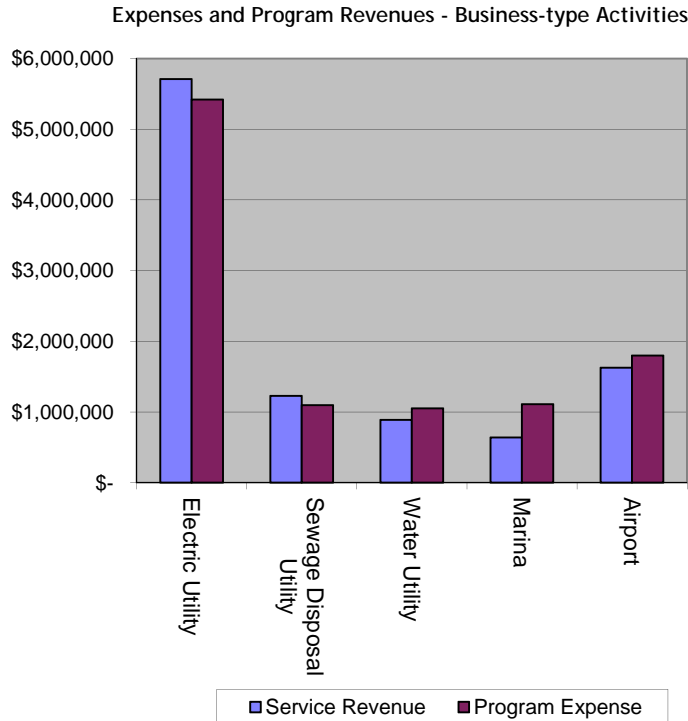


CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Business-type activities. Business-type activities decreased the City's net position by approximately \$177,000. Key elements of this change are as follows:

- The Electric Fund cost for purchased power decreased by approximately \$34,000; however charges for services increased by approximately \$238,000, which increased operating income by approximately \$176,000. The increased revenue was a result of the price increase that was implemented in fiscal year 2012-13.
- The Electric Fund had income before transfers of approximately \$250,000, and transfers out of approximately \$134,000, which resulted in an increase in net position of approximately \$116,000.
- The Sewer Fund had a net income from operations of approximately \$61,000, which is an increase from the prior year of \$114,000, which was the result of increased fees and close monitoring of expenses. 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 \$181,000 and \$473,000, respectively. Similar to the prior year the depreciation expense in those funds was approximately \$225,000 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 \$174,000. Depreciation expense in that fund was approximately \$331,000 which contributed to the net loss from operations. The City continued to realize an increase in costs of operating the airport due to the City taking over the operations of the airport.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$2,232,000, a decrease of approximately \$320,000 in comparison with the prior year. A significant portion of the fund balances, approximately \$1,049,000, constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Unrestricted net position of the Enterprise Funds at the end of the year amounted to approximately \$7,352,000 and the net investment in capital assets was approximately \$23,542,000. The Electric Utility and Sewage Disposal funds had an increase in net position for the year of approximately \$116,000 and \$154,000, respectively. The Water Utility Fund, Marina Fund and Airport Fund had a decrease of approximately \$127,000, \$473,000, and \$149,000, 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 a decrease in fund balance of approximately \$86,000 compared to a budgeted decrease of approximately \$290,000. This was a result of higher than expected property tax 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, 2013, amounted to approximately \$55,613,000 (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, equipment, phone system and software purchases
- Clinton Street engineering and construction
- Clinton Street water main construction
- Engineering design of taxiway and terminal building

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 16,932,797	\$ 16,932,797	\$ 1,569,534	\$ 1,569,534	\$ 18,502,331	\$ 18,502,331
Land improvements	1,466,534	1,467,531	13,366,243	14,030,296	14,832,777	15,497,827
Infrastructure	2,286,953	1,849,702	-	-	2,286,953	1,849,702
Buildings and improvements	3,928,650	4,099,986	3,747,248	3,865,541	7,675,898	7,965,527
System improvements	-	-	10,075,263	10,265,477	10,075,263	10,265,477
Machinery and equipment	749,275	559,721	694,379	753,493	1,443,654	1,313,214
Vehicles	795,945	660,239	-	-	795,945	660,239
Total capital assets, net	\$ 26,160,154	\$ 25,569,976	\$ 29,452,667	\$ 30,484,341	\$ 55,612,821	\$ 56,054,317

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of approximately \$72,000 as well as bonds related to the construction of the marina with a balance of \$5,010,000. The City has pledged its full faith and credit towards the above obligations as well as the outstanding bonds of the Downtown Development Authority Component Unit, which have an outstanding balance at year end of \$285,000.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Installment purchase agreement	\$ -	\$ -	\$ 48,866	\$ 63,468	\$ 48,866	\$ 63,468
MDOT loan	-	-	23,170	34,108	23,170	34,108
Marina limited tax general obligation bonds	-	-	5,010,000	5,190,000	5,010,000	5,190,000
Compensated absences	275,744	264,626	-	-	275,744	264,626
Total	\$ 275,744	\$ 264,626	\$ 5,082,036	\$ 5,287,576	\$ 5,357,780	\$ 5,552,202

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 2013-14 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 reduced the Economic Vitality Incentive Program (EVIP) funding by approximately \$20,000 during 2012-13. EVIP revenue is projected to remain similar to the 2012 amounts. Problems with foreclosures are still occurring and taxable values decreased for 2013 by .11%
- The tax collection rate for the year was 96% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.
- An increase of 8% in health care costs in the 2013-14 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 employee 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 6.6% 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 (2013-14) and our rate will decrease by 24.8%. Offsetting this cost to the City will be increased costs of funding the employer portion of their deferred compensation 457 plan and the 2% wage increase to employees. With long-term funding at nearly \$2.9 million underfunded, the City has moved to the MERS "Bridge Plan" which will reduce the long-term costs by more than \$800,000 by reducing future benefits to employees.
- The operating millage of 9.05 mills remained the same as was adopted in the 2012-13 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.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

- 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 2012-13 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. Therefore, the 2013-14 budget will again increase rates for the fund by 7.3% to continue to fund employee benefits at the same level with expected increases in costs.
- 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.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2013

	Primary Government			Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 2,104,491	\$ 4,313,201	\$ 6,417,692	\$ 598,687
Cash with fiscal agent	-	102,198	102,198	-
Investments	931,246	1,925,242	2,856,488	50,000
Receivables, net	326,386	1,156,942	1,483,328	1,864
Internal balances	(258,606)	258,606	-	-
Other assets	48,725	436,562	485,287	4,533
Restricted investments	-	225,000	225,000	-
Capital assets not being depreciated	16,932,797	1,569,534	18,502,331	923,071
Capital assets being depreciated, net	9,227,357	27,883,133	37,110,490	3,178,503
Total assets	29,312,396	37,870,418	67,182,814	4,756,658
Liabilities				
Accounts payable and accrued liabilities	389,299	734,246	1,123,545	6,353
Unearned revenue	18,091	17,605	35,696	-
Long-term liabilities:				
Due within one year	12,835	236,776	249,611	285,000
Due in more than one year	262,909	4,845,260	5,108,169	-
Total liabilities	683,134	5,833,887	6,517,021	291,353
Net position				
Net investment in capital assets	26,160,154	23,670,631	49,830,785	3,816,574
Restricted for:				
Perpetual care	392,536	-	392,536	-
Mt. McSauba Terrain Park Project	11,382	-	11,382	-
Drug forfeiture	3,820	-	3,820	-
Street improvements	317,492	-	317,492	-
Capital projects	194,441	-	194,441	-
Downtown development	-	-	-	648,731
Unrestricted	1,549,437	8,365,900	9,915,337	-
Total net position	\$ 28,629,262	\$ 32,036,531	\$ 60,665,793	\$ 4,465,305

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2013

FUNCTIONS / PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 41,227	\$ -	\$ -	\$ -	\$ (41,227)
General government	686,198	226,352	1,615	-	(458,231)
Public safety	1,184,487	44,154	7,619	-	(1,132,714)
Public works	753,187	18,330	314,949	-	(419,908)
Health and welfare	383,352	337,461	-	-	(45,891)
Recreation and culture	952,644	269,751	68,364	-	(614,529)
Other expenditures	82,404	-	-	-	(82,404)
Total governmental activities	4,083,499	896,048	392,547	-	(2,794,904)
Business-type activities:					
Electric utility	5,417,859	5,698,504	10,498	-	291,143
Sewage disposal utility	1,093,678	1,181,535	45,139	-	132,996
Water utility	1,048,440	887,416	657	-	(160,367)
Marina	1,110,476	388,978	250,304	-	(471,194)
Airport	1,795,481	1,382,194	1,457	242,221	(169,609)
Total business-type activities	10,465,934	9,538,627	308,055	242,221	(377,031)
Total primary government	\$ 14,549,433	\$ 10,434,675	\$ 700,602	\$ 242,221	\$ (3,171,935)
Component unit					
Downtown Development Authority	\$ 619,229	\$ 48,638	\$ 39,563	\$ -	\$ (531,028)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net expense	\$ (2,794,904)	\$ (377,031)	\$ (3,171,935)	\$ (531,028)
General revenues:				
Property taxes	2,898,942	-	2,898,942	707,179
State shared revenues	216,297	-	216,297	-
Other revenue	20,332	-	20,332	-
Unrestricted investment earnings	5,081	-	5,081	-
Transfers - internal activities	(199,850)	199,850	-	-
Total general revenues and transfers	2,940,802	199,850	3,140,652	707,179
Change in net position	145,898	(177,181)	(31,283)	176,151
Net position, beginning of year	28,483,364	32,213,712	60,697,076	4,289,154
Net position, end of year	\$ 28,629,262	\$ 32,036,531	\$ 60,665,793	\$ 4,465,305

Concluded

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

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FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet Governmental Funds March 31, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 695,002	\$ 653,571	\$ 1,348,573
Investments	405,000	326,246	731,246
Accounts receivable, net	129,711	590	130,301
Taxes receivable	72,337	26,701	99,038
Interest receivable	1,289	472	1,761
Other assets	2,233	-	2,233
Due from other funds	109,021	5,080	114,101
Due from other governmental units	45,017	48,264	93,281
Total assets	\$ 1,459,610	\$ 1,060,924	\$ 2,520,534
Liabilities			
Accounts payable	\$ 125,495	\$ 37,125	\$ 162,620
Accrued liabilities	28,173	1,710	29,883
Due to other funds	59,642	5,080	64,722
Unearned revenue	11,682	1,148	12,830
Total liabilities	224,992	45,063	270,055
Deferred inflows of resources			
Unavailable revenue - long-term receivable	18,106	-	18,106
Fund balances (Note 17)			
Nonspendable	2,233	392,536	394,769
Restricted	15,202	511,933	527,135
Assigned	149,793	111,392	261,185
Unassigned	1,049,284	-	1,049,284
Total fund balances	1,216,512	1,015,861	2,232,373
Total liabilities, deferred inflows of resources and fund balances	\$ 1,459,610	\$ 1,060,924	\$ 2,520,534

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
March 31, 2013

Fund balances - total governmental funds	\$ 2,232,373
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets, net	25,104,996
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	1,667,884
Net position allocated to business-type activities from governmental activities internal service funds	(269,450)
The focus of governmental funds is on short-term financing; some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Deferred long-term receivables	18,106
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>(124,647)</u>
Net position of governmental activities	<u>\$ 28,629,262</u>

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended March 31, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 2,223,507	\$ 675,435	\$ 2,898,942
State revenue	219,231	336,586	555,817
Licenses and permits	4,180	-	4,180
Charges for services	676,707	7,175	683,882
Fines and forfeits	25,278	-	25,278
Interest	2,553	1,676	4,229
Rents and royalties	116,201	6,578	122,779
Other revenue	111,763	6,466	118,229
Total revenues	3,379,420	1,033,916	4,413,336
Expenditures			
Current:			
Legislative	41,424	-	41,424
General government	575,835	157,587	733,422
Public safety	1,157,162	216,464	1,373,626
Public works	234,692	868,475	1,103,167
Health and welfare	390,481	-	390,481
Recreation and culture	885,566	4,642	890,208
Other expenditures	82,404	-	82,404
Total expenditures	3,367,564	1,247,168	4,614,732
Revenues over (under) expenditures	11,856	(213,252)	(201,396)
Other financing sources (uses)			
Transfers in	2,500	640,758	643,258
Transfers out	(100,000)	(661,708)	(761,708)
Total other financing sources (uses)	(97,500)	(20,950)	(118,450)
Net change in fund balances	(85,644)	(234,202)	(319,846)
Fund balances, beginning of year	1,302,156	1,250,063	2,552,219
Fund balances, end of year	\$ 1,216,512	\$ 1,015,861	\$ 2,232,373

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended March 31, 2013

Net change in fund balances - total governmental funds	\$ (319,846)
Amounts reported for <i>governmental activities</i> 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	798,204
Depreciation expense	(368,162)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Long-term receivables	18,106
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Change in net position from governmental activities accounted for in internal service funds	130,281
Change in net position from governmental activities accounted for in internal service funds charged to business-type activities.	(105,073)
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 increase in compensated absences - sick leave	<u>(7,612)</u>
Change in net position of governmental activities	<u><u>\$ 145,898</u></u>

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 1,986,100	\$ 1,986,100	\$ 2,191,552	\$ 205,452
Payments in lieu of taxes	3,300	3,300	4,448	1,148
Interest and penalties on taxes	14,000	14,000	9,229	(4,771)
Tax collection fees	15,500	15,500	18,278	2,778
Total taxes	2,018,900	2,018,900	2,223,507	204,607
State revenue	234,900	234,900	219,231	(15,669)
Licenses and permits	4,700	4,700	4,180	(520)
Charges for services:				
Fire runs	42,100	42,100	44,154	2,054
Ambulance runs	260,000	260,000	265,076	5,076
Ambulance contracts	83,100	83,100	72,385	(10,715)
Cemetery	40,000	40,000	38,903	(1,097)
Golf course	139,200	139,200	129,095	(10,105)
Summer sports	3,000	3,000	7,394	4,394
Day camp	57,000	57,000	49,566	(7,434)
Winter sports	60,000	60,000	37,719	(22,281)
Basketball	800	800	545	(255)
Skate park	3,200	3,200	2,481	(719)
Parking	18,000	18,000	22,189	4,189
Other	4,000	4,000	7,200	3,200
Total charges for services	710,400	710,400	676,707	(33,693)
Fines and forfeitures	17,500	17,500	25,278	7,778
Interest	8,000	8,000	2,553	(5,447)
Rents and royalties:				
City hall	92,700	92,700	93,900	1,200
Boat launch/harbor building	21,800	21,800	22,301	501
Total rents and royalties	114,500	114,500	116,201	1,701
Other revenue	18,300	18,300	111,763	93,463
Total revenues	3,127,200	3,127,200	3,379,420	252,220

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Legislative:				
City council	\$ 42,000	\$ 45,117	\$ 41,424	\$ (3,693)
General government:				
Mayor	8,900	6,328	7,141	813
City manager	92,300	82,777	81,954	(823)
Elections	21,100	21,566	20,522	(1,044)
Assessor	71,200	108,038	115,567	7,529
City attorney	72,400	68,200	81,792	13,592
City clerk	40,500	40,004	37,850	(2,154)
City treasurer	52,800	55,887	54,609	(1,278)
City hall and grounds	104,900	101,860	98,409	(3,451)
Cemetery	77,900	78,573	77,991	(582)
Total general government	542,000	563,233	575,835	12,602
Public safety:				
Police department	750,100	746,943	746,563	(380)
Parking law enforcement	8,600	8,029	8,208	179
Fire department	305,300	327,737	325,697	(2,040)
Planning department	76,500	79,230	76,694	(2,536)
Total public safety	1,140,500	1,161,939	1,157,162	(4,777)
Public works:				
Highways and streets	11,200	11,200	41	(11,159)
Leaf pick up	117,300	140,358	132,874	(7,484)
Waste collection	38,600	38,600	41,989	3,389
Brush pickup	49,100	62,468	59,788	(2,680)
Total public works	216,200	252,626	234,692	(17,934)

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended March 31, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Health and welfare:				
Ambulance	\$ 360,800	\$ 384,168	\$ 390,481	\$ 6,313
Recreation and culture:				
Parks	352,000	399,480	423,445	23,965
Recreation administration	35,800	17,691	15,914	(1,777)
City beaches	32,200	28,712	28,425	(287)
Ball fields	14,600	15,197	15,914	717
Day camp	49,000	50,904	51,943	1,039
Ice rink	6,000	5,892	4,784	(1,108)
Mt. McSauba ski hill	108,500	101,695	101,795	100
Basketball and volleyball	600	500	1,821	1,321
Golf course	203,000	203,101	203,335	234
Boat launch	18,900	17,955	17,841	(114)
Skate park	5,100	5,174	4,527	(647)
Community promotion	11,500	17,142	15,822	(1,320)
Total recreation and culture	837,200	863,443	885,566	22,123
Other expenditures	30,000	30,017	82,404	52,387
Total expenditures	3,168,700	3,300,543	3,367,564	67,021
Revenues over expenditures	(41,500)	(173,343)	11,856	185,199
Other financing sources (uses)				
Transfers in	2,500	2,500	2,500	-
Transfers out	(119,400)	(119,400)	(100,000)	(19,400)
Total other financing sources (uses)	(116,900)	(116,900)	(97,500)	(19,400)
Net change in fund balance	(158,400)	(290,243)	(85,644)	204,599
Fund balance, beginning of year	1,302,156	1,302,156	1,302,156	-
Fund balance, end of year	\$ 1,143,756	\$ 1,011,913	\$ 1,216,512	\$ 204,599

Concluded

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position
 Proprietary Funds
 March 31, 2013

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,248,909	\$ 560,701	\$ 37,418	\$ 23,002
Investments	1,315,188	190,256	44,798	75,000
Cash at fiscal agent	-	-	-	102,198
Accounts receivable, net	878,561	114,452	76,704	-
Interest receivable	4,345	8	8	15
Due from other funds	-	6,168	2,540	7,967
Due from other governmental units	-	43,767	-	-
Other assets	252	252	252	31,716
Inventory	331,309	-	45,656	-
Total current assets	5,778,564	915,604	207,376	239,898
Noncurrent assets:				
Restricted investments for replacement	75,000	75,000	75,000	-
Advance to other funds	860,000	-	46,459	-
Capital assets, not being depreciated	187,613	345,125	13,730	-
Capital assets, net of accumulated depreciation	4,615,247	3,873,970	4,541,696	10,049,301
Total noncurrent assets	5,737,860	4,294,095	4,676,885	10,049,301
Total assets	11,516,424	5,209,699	4,884,261	10,289,199
Liabilities				
Current liabilities:				
Accounts payable	353,306	51,769	12,036	5,190
Accrued liabilities	10,565	5,053	5,203	102,710
Customer deposits	74,471	-	-	52,559
Current portion of bonds and notes payable	-	-	-	210,000
Current portion of compensated absences	-	-	-	-
Due to other funds	-	-	2,540	-
Unearned revenue	-	-	-	-
Total current liabilities	438,342	56,822	19,779	370,459
Noncurrent liabilities:				
Advance from other funds	-	-	-	700,000
Bonds payable, net of current portion	-	-	-	4,800,000
Notes payable, net of current portion	-	-	-	-
Compensated absences, net of current portion	-	-	-	-
Total noncurrent liabilities	-	-	-	5,500,000
Total liabilities	438,342	56,822	19,779	5,870,459
Net position				
Net investment in capital assets	4,802,860	4,219,095	4,555,426	4,339,301
Unrestricted (deficit)	6,275,222	933,782	309,056	79,439
Total net position	\$ 11,078,082	\$ 5,152,877	\$ 4,864,482	\$ 4,418,740

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

Airport	Total	Internal Service Funds
\$ 200	\$ 3,870,230	\$ 1,198,889
-	1,625,242	500,000
-	102,198	-
38,000	1,107,717	1,388
-	4,376	1,699
-	16,675	53,474
-	43,767	-
-	32,472	46,492
27,125	404,090	-
<u>65,325</u>	<u>7,206,767</u>	<u>1,801,942</u>
-	225,000	-
-	906,459	-
960,066	1,506,534	83,653
4,736,953	27,817,167	1,100,471
<u>5,697,019</u>	<u>30,455,160</u>	<u>1,184,124</u>
5,762,344	37,661,927	2,986,066
56,871	479,172	183,253
4,513	128,044	13,543
-	127,030	-
26,776	236,776	-
-	-	7,550
71,438	73,978	45,550
17,605	17,605	5,261
<u>177,203</u>	<u>1,062,605</u>	<u>255,157</u>
160,000	860,000	46,459
-	4,800,000	-
45,260	45,260	-
-	-	143,547
<u>205,260</u>	<u>5,705,260</u>	<u>190,006</u>
382,463	6,767,865	445,163
5,624,983	23,541,665	1,137,665
(245,102)	7,352,397	1,403,238
<u>\$ 5,379,881</u>	<u>\$ 30,894,062</u>	<u>\$ 2,540,903</u>

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CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-Type Activities
March 31, 2013

Net position - total enterprise funds \$ 30,894,062

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

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

Net position of business-type activities accounted for in business-type activity internal service funds	873,019
Net position allocated to business-type activities from governmental activities internal service funds	<u>269,450</u>

Net position of business-type activities \$ 32,036,531

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position
 Proprietary Funds
 For the Year Ended March 31, 2013

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,698,504	\$ 1,181,535	\$ 887,416	\$ 388,978
Operating expenses				
Purchased power	3,456,126	-	-	-
Fuel purchases	-	-	-	-
Personnel services	967,101	467,144	547,731	126,009
Contractual services	82,603	105,762	31,198	30,052
Insurance	15,794	12,111	5,084	3,000
Building rental	48,204	22,248	22,248	-
Equipment rental	106,454	75,089	51,860	364
Supplies	62,599	68,733	76,269	5,553
Utilities	46,394	124,103	54,462	60,998
Repairs and maintenance	61,914	19,838	47,333	5,314
Depreciation	543,640	210,839	225,421	657,408
Amortization	-	-	-	2,440
Miscellaneous	68,137	14,885	7,201	9,476
Total operating expenses	5,458,966	1,120,752	1,068,807	900,614
Operating income (loss)	239,538	60,783	(181,391)	(511,636)
Nonoperating revenues (expenses)				
Interest revenue	9,998	163	657	304
Loss on sale of capital assets	-	-	-	-
Other revenue (expense)	500	-	-	250,000
Federal revenue	-	43,767	-	-
State revenue	-	-	-	-
Interest expense	-	-	-	(211,608)
Total nonoperating revenues (expenses)	10,498	43,930	657	38,696
Income (loss) before transfers	250,036	104,713	(180,734)	(472,940)
Transfers				
Transfers in	-	83,692	83,358	-
Transfers out	(134,100)	(34,100)	(29,500)	-
Total transfers	(134,100)	49,592	53,858	-
Change in net position	115,936	154,305	(126,876)	(472,940)
Net position, beginning of year	10,962,146	4,998,572	4,991,358	4,891,680
Net position, end of year	\$ 11,078,082	\$ 5,152,877	\$ 4,864,482	\$ 4,418,740

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

Airport	Total	Internal Service Funds
\$ 1,382,194	\$ 9,538,627	\$ 2,762,334
-	3,456,126	-
996,001	996,001	-
233,467	2,341,452	2,154,240
37,403	287,018	30,258
92,442	128,431	-
-	92,700	-
745	234,512	-
3,118	216,272	113,928
26,970	312,927	8,788
14,967	149,366	74,312
331,259	1,968,567	158,318
-	2,440	-
58,843	158,542	1,869
1,795,215	10,344,354	2,541,713
(413,021)	(805,727)	220,621
-	11,122	2,061
-	-	(17,563)
-	250,500	(3,047)
242,221	285,988	-
1,457	1,457	-
(4,227)	(215,835)	-
239,451	333,232	(18,549)
(173,570)	(472,495)	202,072
25,000	192,050	220,500
-	(197,700)	(96,400)
25,000	(5,650)	124,100
(148,570)	(478,145)	326,172
5,528,451	31,372,207	2,214,731
\$ 5,379,881	\$ 30,894,062	\$ 2,540,903

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CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Change in Net Position of Enterprise Funds
to Change in Net Position of Business-Type Activities
For the Year Ended March 31, 2013

Change in net position - total enterprise funds \$ (478,145)

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

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

Change in net position of internal service funds charged to business-type activities	195,891
Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities	<u>105,073</u>

Change in net position of business-type activities \$ (177,181)

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2013

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,620,073	\$ 1,186,519	\$ 885,144	\$ 390,880
Cash received from interfund services	-	-	-	-
Cash payments to employees	(966,526)	(467,160)	(547,847)	(129,737)
Cash payments to suppliers for goods and services	(3,923,341)	(424,457)	(272,631)	(112,734)
Net cash provided by (used in) operating activities	730,206	294,902	64,666	148,409
Cash flows from noncapital financing activities				
Other receipts (payments)	500	-	-	250,000
Federal receipts	-	-	-	-
State receipts	-	-	-	-
Repayment on advance to other funds	-	-	-	-
Transfers in	-	83,692	83,358	-
Transfers out	(134,100)	(34,100)	(29,500)	-
Net cash (used in) provided by noncapital financing activities	(133,600)	49,592	53,858	250,000
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(356,148)	(160,289)	(144,206)	(1,250)
Bond and loan principal payments	-	-	-	(180,000)
Bond and loan interest payments	-	-	-	(211,608)
Net cash used in capital and related financing activities	(356,148)	(160,289)	(144,206)	(392,858)
Cash flows from investing activities				
Proceeds from matured investments	254,018	-	-	-
Purchase of investments	-	-	-	-
Receipt of amounts from advance to other funds	-	-	14,694	-
Interest received	21,116	1,144	1,693	305
Net cash provided by (used in) investing activities	275,134	1,144	16,387	305
Net increase (decrease) in cash and cash equivalents	515,592	185,349	(9,295)	5,856
Cash and cash equivalents, beginning of year	2,733,317	375,352	46,713	119,344
Cash and cash equivalents, including cash at fiscal agent, end of year	3,248,909	560,701	37,418	125,200
Cash at fiscal agent, end of year	-	-	-	(102,198)
Cash and cash equivalents, end of year	\$ 3,248,909	\$ 560,701	\$ 37,418	\$ 23,002

Airport	Total	Internal Service Funds
\$ 1,374,747	\$ 9,457,363	\$ -
-	-	2,766,591
(233,467)	(2,344,737)	(2,142,576)
<u>(1,141,676)</u>	<u>(5,874,839)</u>	<u>(122,882)</u>
(396)	1,237,787	501,133
-	250,500	(3,047)
242,221	242,221	-
1,457	1,457	-
-	-	(14,694)
25,000	192,050	220,500
-	(197,700)	(96,400)
<u>268,678</u>	<u>488,528</u>	<u>106,359</u>
-	-	11,183
(285,817)	(947,710)	(336,382)
(25,540)	(205,540)	-
(4,227)	(215,835)	-
<u>(315,584)</u>	<u>(1,369,085)</u>	<u>(325,199)</u>
-	254,018	95,982
-	-	(400,000)
-	14,694	-
-	24,258	766
-	<u>292,970</u>	<u>(303,252)</u>
(47,302)	650,200	(20,959)
<u>47,502</u>	<u>3,322,228</u>	<u>1,219,848</u>
200	3,972,428	1,198,889
-	(102,198)	-
<u>\$ 200</u>	<u>\$ 3,870,230</u>	<u>\$ 1,198,889</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended March 31, 2013

	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)	\$ 239,538	\$ 60,783	\$ (181,391)	\$ (511,636)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	543,640	210,839	225,421	657,408
Changes in assets and liabilities				
Accounts receivable	(84,323)	8,442	(2,272)	-
Other assets	83	225	24	-
Inventory	(593)	-	28,049	2,440
Accounts payable	25,394	18,087	(5,049)	2,023
Accrued liabilities	575	(16)	(116)	(3,728)
Due to other funds	-	-	-	-
Customer deposits	6,913	-	-	1,902
Accrued compensated absences	-	-	-	-
Unearned revenue	(1,021)	(3,458)	-	-
Net cash provided by (used in) operating activities	<u>\$ 730,206</u>	<u>\$ 294,902</u>	<u>\$ 64,666</u>	<u>\$ 148,409</u>

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

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

\$ (413,021) \$ (805,727) \$ 220,621

331,259 1,968,567 158,318

93 (78,060) (1,004)

315 647 (3,304)

2,444 32,340 -

15,822 56,277 109,577

(1,206) (4,491) 8,158

71,438 71,438 -

- 8,815 -

- - 3,506

(7,540) (12,019) 5,261

\$ (396) \$ 1,237,787 \$ 501,133

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2013

Assets	
Cash	<u>\$ 90,902</u>
Liabilities	
Undistributed receipts	<u>\$ 90,902</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

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

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, MICHIGAN

Notes to the 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 the financial resources of the general government, except those accounted for and reported in another fund.

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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.

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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

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

Deposits and investments

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

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

Investments are reported at fair value.

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, 2013, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$30,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Inventories

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

Restricted investments

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

Capital assets

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

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

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

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

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

Deferred outflows of resources

In addition to assets, the statements of net position or balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until a future period. The City does not have any deferred outflows of resources at March 31, 2013.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Deferred inflows of resources

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

Fund equity

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

The City is reporting deficit unrestricted net position of \$245,102 in the Airport enterprise fund; however, total net position is not in a deficit. Management is looking at ways to increase revenues and decrease expenses in this fund so that they can eliminate the related deficit.

Interfund transactions

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

Use of Estimates

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

2. Budgetary Information

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

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

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

3. Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the City were adopted on the function level basis for all governmental funds, which is the legal level of control. During the year ended March 31, 2013 the City had expenditures in budgetary funds which were in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
General government	\$ 563,233	\$ 575,835	\$ 12,602
Health and welfare	384,168	390,481	6,313
Recreation and culture	863,443	885,566	22,123
Other expenditures	30,017	82,404	52,387

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

4. Deposits and Investments

Following is a reconciliation of deposit and investment balances as of March 31, 2013:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 6,417,692	\$ 598,687	\$ 7,016,379
Cash with fiscal agent	102,198	-	102,198
Investments	2,856,488	50,000	2,906,488
Restricted investments	225,000	-	225,000
Total Statement of Net Position	\$ 9,601,378	\$ 648,687	
Statement of Net Position - Fiduciary Funds			
Cash and cash equivalents			90,902
Total deposits and investments			\$ 10,340,967
Deposits and investments			
Bank deposits (checking accounts, savings accounts and certificate of deposits)			\$ 10,237,761
Cash with fiscal agent			102,198
Petty cash			1,008
Total deposits and investments			\$ 10,340,967

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, approximately \$500,000 of the City's bank balance of approximately \$10,300,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

5. Receivables

Receivables are comprised of the following as of March 31, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable, net	\$ 131,689	\$ 1,107,717	\$ 1,864
Taxes receivable	99,038	-	-
Interest receivable	2,378	5,458	-
Due from other governmental units	93,281	43,767	-
	<u>\$ 326,386</u>	<u>\$ 1,156,942</u>	<u>\$ 1,864</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

6. Capital Assets

Primary Government

Capital assets activity for the primary government for the year ended March 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 16,932,797	\$ -	\$ -	\$ -	\$ 16,932,797
Capital assets being depreciated:					
Land improvements	3,180,118	21,605	-	-	3,201,723
Infrastructure	2,065,440	512,894	-	-	2,578,334
Buildings and improvements	7,419,222	6,282	-	-	7,425,504
Machinery and equipment	1,995,068	316,038	(93,640)	-	2,217,466
Vehicles	2,445,688	277,766	(10,697)	-	2,712,757
	<u>17,105,536</u>	<u>1,134,585</u>	<u>(104,337)</u>	<u>-</u>	<u>18,135,784</u>
Less accumulated depreciation for:					
Land improvements	(1,712,587)	(22,602)	-	-	(1,735,189)
Infrastructure	(215,738)	(75,643)	-	-	(291,381)
Buildings and improvements	(3,319,236)	(177,618)	-	-	(3,496,854)
Machinery and equipment	(1,435,347)	(97,739)	64,895	-	(1,468,191)
Vehicles	(1,785,449)	(142,060)	10,697	-	(1,916,812)
	<u>(8,468,357)</u>	<u>(515,662)</u>	<u>75,592</u>	<u>-</u>	<u>(8,908,427)</u>
Total capital assets being depreciated, net	<u>8,637,179</u>	<u>618,923</u>	<u>(28,745)</u>	<u>-</u>	<u>9,227,357</u>
Governmental activities capital assets, net	<u>\$ 25,569,976</u>	<u>\$ 618,923</u>	<u>\$ (28,745)</u>	<u>\$ -</u>	<u>\$ 26,160,154</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 1,569,534	\$ -	\$ -	\$ -	\$ 1,569,534
Capital assets being depreciated:					
Land improvements	17,614,232	222,370	-	-	17,836,602
Buildings and improvements	9,588,004	131,770	-	-	9,719,774
System improvements	24,233,809	490,105	-	-	24,723,914
Machinery and equipment	2,628,738	103,466	(49,030)	-	2,683,174
	<u>54,064,783</u>	<u>947,711</u>	<u>(49,030)</u>	<u>-</u>	<u>54,963,464</u>
Less accumulated depreciation for:					
Land improvements	(3,583,936)	(886,423)	-	-	(4,470,359)
Buildings and improvements	(5,722,463)	(250,063)	-	-	(5,972,526)
System improvements	(13,968,332)	(680,319)	-	-	(14,648,651)
Machinery and equipment	(1,875,245)	(162,580)	49,030	-	(1,988,795)
	<u>(25,149,976)</u>	<u>(1,979,385)</u>	<u>49,030</u>	<u>-</u>	<u>(27,080,331)</u>
Total capital assets being depreciated, net	<u>28,914,807</u>	<u>(1,031,674)</u>	<u>-</u>	<u>-</u>	<u>27,883,133</u>
Business-type activities					
capital assets, net	<u>\$ 30,484,341</u>	<u>\$ (1,031,674)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,452,667</u>

Depreciation expense for the year ended March 31, 2013 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 79,551
Public safety	76,480
Public works	111,001
Recreation and culture	101,130
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>147,500</u>
	<u>\$ 515,662</u>
Depreciation of business-type activities by function	
Electric utility	\$ 543,640
Sewage disposal utility	210,839
Water utility	225,421
Marina	657,408
Airport	331,259
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>10,818</u>
	<u>\$ 1,979,385</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2013, 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	26,138	-	-	2,352,214
Buildings and improvements	3,960,317	-	-	-	3,960,317
Machinery and equipment	72,119	-	-	-	72,119
	<u>6,358,512</u>	<u>26,138</u>	<u>-</u>	<u>-</u>	<u>6,384,650</u>
Less accumulated depreciation for:					
Land improvements	(1,186,303)	(81,942)	-	-	(1,268,245)
Buildings and improvements	(1,778,863)	(106,980)	-	-	(1,885,843)
Machinery and equipment	(47,737)	(4,322)	-	-	(52,059)
	<u>(3,012,903)</u>	<u>(193,244)</u>	<u>-</u>	<u>-</u>	<u>(3,206,147)</u>
Total capital assets being depreciated, net	<u>3,345,609</u>	<u>(167,106)</u>	<u>-</u>	<u>-</u>	<u>3,178,503</u>
Component unit capital assets, net	<u>\$ 4,268,680</u>	<u>\$ (167,106)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,101,574</u>

Depreciation expense for the component unit, included in the statement of activities, was \$193,244 for fiscal 2013.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following as of March 31, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 345,873	\$ 479,172	\$ 6,353
Accrued liabilities	43,426	128,044	-
Customer deposits	-	127,030	-
	<u>\$ 389,299</u>	<u>\$ 734,246</u>	<u>\$ 6,353</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

8. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of March 31, 2013, was as follows:

Due to and from other funds

	Due to Other Funds	Due From Other Funds
General fund	\$ 59,642	\$ 109,021
Nonmajor governmental funds	5,080	5,080
Sewage disposal utility fund	-	6,168
Water utility fund	2,540	2,540
Marina fund	-	7,967
Airport fund	71,438	-
Internal service funds	45,550	53,474
	<u>\$ 184,250</u>	<u>\$ 184,250</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	46,459	-
Marina fund	-	700,000
Airport fund	-	160,000
Internal service funds	-	46,459
	<u>\$ 906,459</u>	<u>\$ 906,459</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. This advance is to be repaid over eight years with interest charged at 0.5% and paid annually; however, no principal payments have been made on this advance to date. During fiscal year ended March 31, 2012, the Electric Utility Enterprise Fund advanced a total of \$160,000 to the Airport Enterprise Fund to cover initial costs of airport operations and for cash flow purposes. Interest is charged at 0.5% on this advance and is due annually beginning in fiscal year 2012/13 and principal will be repaid over six years beginning in fiscal year 2014/15.

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 0.5%. During the year ended March 31, 2012, approximately \$15,000 of the advance was repaid. The balance of the advance as of March 31, 2013 is \$46,459.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

For the year ended March 31, 2013, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 2,500	\$ 100,000
Nonmajor governmental funds	640,758	661,708
Electric utility fund	-	134,100
Sewage disposal utility fund	83,692	34,100
Water utility fund	83,358	29,500
Airport fund	25,000	-
Internal service funds	220,500	96,400
	<u>\$ 1,055,808</u>	<u>\$ 1,055,808</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	Matures	Interest Rates	Amount
Business-type activities			
Marina - limited tax general obligation bonds	January, 2027	4.0% - 4.2%	\$ 5,010,000
Airport - installment purchase	September, 2016	5.6%	48,866
Airport - loan (MDOT)	September, 2014	3.9%	23,170
			<u>\$ 5,082,036</u>
Component Unit - Downtown Development Authority			
General obligation limited tax bond		3.4%	<u>\$ 285,000</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Long-term debt activity for the year ended March 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences - sick leave	\$ 117,035	\$ 59,121	\$ (51,509)	\$ 124,647	\$ 5,285
Compensated absences - vacation	147,591	150,376	(146,870)	151,097	7,550
Total governmental activities	264,626	209,497	(198,379)	275,744	12,835
Business-type activities					
General obligation bonds	5,190,000	-	(180,000)	5,010,000	210,000
Installment purchase agreement	63,468	-	(14,602)	48,866	15,412
Loan	34,108	-	(10,938)	23,170	11,364
Total business-type activities	5,287,576	-	(205,540)	5,082,036	236,776
Total primary government	\$ 5,552,202	\$ 209,497	\$ (403,919)	\$ 5,357,780	\$ 249,611
Component unit - DDA					
General obligation bonds	\$ 560,000	\$ -	\$ (275,000)	\$ 285,000	\$ 285,000

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

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
2014	\$ 236,776	\$ 203,849	\$ 285,000	\$ 9,976
2015	268,084	193,538	-	-
2016	272,176	182,262	-	-
2017	275,000	170,695	-	-
2018	295,000	159,295	-	-
2019-2023	1,820,000	594,664	-	-
2024-2027	1,915,000	164,491	-	-
	\$ 5,082,036	\$ 1,668,794	\$ 285,000	\$ 9,976

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

10. Operating Lease and Commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note for the construction of a storage building, which approximates \$43,000 as of March 31, 2013. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2014	\$ 23,966
2015	24,898
2016	25,862
2017	26,861
2018	27,894
2019-2023	156,277
2024-2028	<u>219,394</u>
	<u>\$ 505,152</u>

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, 2013, 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.

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 2012 levy was assessed and equalized at \$238,241,319 (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 2012-13 was 9.0500 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional 0.9000 mills levied for refuse.

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

13. Defined Benefit Pension Plan

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

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America ("CWA") is 17.15% of annual covered payroll, the Police and Fire ("POLC") rate is 14.74% and the non-union rate is 17.94% 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, 2013, the City's annual pension cost of \$281,799 for MERS represents the City's required contributions. The City employees contributed \$52,519, which was equal to their required contribution. The required contribution is determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 4.5% to 17.5% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year (1% for calendar year 2013 - 2016), compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the last actuarial valuation, was 26 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/11	\$ 356,360	100%	\$ -
3/31/12	381,096	100%	-
3/31/13	281,799	100%	-

Funded Status and Funding Progress. As of December 31, 2012, the most recent valuation date, the Plan was 75% funded. The actuarial accrued liability for benefits was \$11,586,142 and the actuarial value of assets was \$8,698,156, resulting in an unfunded actuarial accrued liability of \$2,887,986, which means the plan is under funded. The covered payroll (annual payroll for active employees covered by the Plan) was \$2,406,655 and the ratio for the UAAL to the covered payroll was 120%.

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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

14. Defined Contribution Plan

The City provided pension benefits to its City Manager through a defined contribution plan “City of Charlevoix City Manager Money Purchase Plan.” In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.60% of the City Manager’s gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. The City contributed \$19,062 to the Plan during the year ended March 31, 2013. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2013.

15. Entitlement Commitment

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

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

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

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

Year Ended December 31,	Campbell No. 3		Belle River	
	Principal	Interest	Principal	Interest
2014	\$ 158,100	\$ 15,810	\$ 351,285	\$ 102,408
2015	158,100	7,905	369,683	83,966
2016	-	-	389,070	64,557
2017	-	-	409,530	44,131
2018	-	-	431,063	22,631
Total	\$ 316,200	\$ 23,715	\$ 1,950,631	\$ 317,693

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Year Ended December 31,	Combustion Turbine No. 1		Campbell Project Bank	
	Principal	Interest	Principal	Interest
2014	\$ 57,112	\$ 56,121	\$ -	\$ 26,076
2015	60,180	53,265	-	28,361
2016	63,012	50,256	-	28,361
2017	66,316	47,106	193,936	28,361
2018	69,620	43,790	199,470	22,779
2019-2023	404,032	163,100	845,046	44,085
2024-2028	402,144	51,506	-	-
Total	\$ 1,122,416	\$ 465,144	\$ 1,238,452	\$ 178,023

Year Ended December 31,	AFEC Project		Total	
	Principal	Interest	Principal	Interest
2014	\$ 17,281	\$ 50,147	\$ 583,778	\$ 250,562
2015	17,442	49,862	605,405	223,359
2016	17,927	49,412	470,009	192,586
2017	18,734	48,695	688,516	168,293
2018	19,380	47,945	719,533	137,145
2019-2023	111,275	225,471	1,360,353	432,656
2024-2028	140,507	196,217	542,651	247,723
2029-2033	179,105	157,698	179,105	157,698
2034-2038	228,362	108,237	228,362	108,237
2039-2043	291,509	45,139	291,509	45,139
Total	\$ 1,041,522	\$ 978,823	\$ 5,669,221	\$ 1,963,398

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The City's share of this trust fund was approximately \$368,000 at March 31, 2013.

16. Net Investment in Capital Assets

The composition of net investment in capital assets as of March 31, 2013, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 1,569,534	\$ 923,071
Capital assets being depreciated, net	9,227,357	27,883,133	3,178,503
	<u>26,160,154</u>	<u>29,452,667</u>	<u>4,101,574</u>
Long-term liabilities:			
Due within one year	12,835	236,776	285,000
Due in more than one year	262,909	4,845,260	-
Advance from other funds	-	700,000	-
Less: compensated absences	(275,744)	-	-
	<u>-</u>	<u>5,782,036</u>	<u>285,000</u>
Net investment in capital assets	\$ 26,160,154	\$ 23,670,631	\$ 3,816,574

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

17. Fund Balances - Governmental Funds

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

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Perpetual care	\$ -	\$ 392,536	\$ 392,536
Prepays	2,233	-	2,233
Total nonspendable:	<u>2,233</u>	<u>392,536</u>	<u>394,769</u>
Restricted for:			
Drug forfeitures	3,820	-	3,820
Mt. McSauba Terrain Park Project	11,382	-	11,382
Special revenue funds:			
Major streets	-	102,668	102,668
Local streets	-	112,986	112,986
Capital project funds:			
Infrastructure improvements	-	194,441	194,441
Street improvements	-	101,838	101,838
Total restricted	<u>15,202</u>	<u>511,933</u>	<u>527,135</u>
Assigned for:			
Capital project funds:			
Fire Truck and Ambulance	-	2,564	2,564
Industrial Park	-	105,205	105,205
Mt. McSauba Improvements	-	3,623	3,623
Downtown Parking	-	-	-
Subsequent year expenditures	149,793	-	149,793
Total assigned	<u>149,793</u>	<u>111,392</u>	<u>261,185</u>
Unassigned	<u>1,049,284</u>	-	<u>1,049,284</u>
Total fund balances, governmental funds	<u>\$ 1,216,512</u>	<u>\$ 1,015,861</u>	<u>\$ 2,232,373</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information

Employees' Retirement Plan

Schedule of Funding Progress
MERS Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$ 8,225,348	\$ 11,815,094	\$ 3,589,746	70%	\$ 2,322,846	155%
12/31/11	8,528,633	11,847,262	3,318,629	72%	2,370,449	140%
12/31/12	8,698,156	11,586,142	2,887,986	75%	2,406,655	120%

Schedule of Employer Contributions
MERS Defined Benefit Pension Plan

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
3/31/11	\$ 356,360	100%
3/31/12	381,096	100%
3/31/13	281,799	100%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2013

	Special Revenue Funds			
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 73,589	\$ 114,162	\$ 2,564	\$ 105,205
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other funds	-	2,540	-	-
Due from other governmental units	36,899	11,365	-	-
Total assets	\$ 110,488	\$ 128,067	\$ 2,564	\$ 105,205
Liabilities				
Accounts payable	\$ 6,512	\$ 12,139	\$ -	\$ -
Accrued liabilities	1,308	402	-	-
Due to other funds	-	2,540	-	-
Unearned revenue	-	-	-	-
Total liabilities	7,820	15,081	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	102,668	112,986	-	-
Assigned	-	-	2,564	105,205
Total fund balances	102,668	112,986	2,564	105,205
Total liabilities and fund balances	\$ 110,488	\$ 128,067	\$ 2,564	\$ 105,205



Capital Project Funds				Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care	Total
\$ 144,171	\$ 94,561	\$ 4,181	\$ -	\$ 115,138	\$ 653,571
48,878	-	-	-	277,368	326,246
-	-	590	-	-	590
14,782	11,919	-	-	-	26,701
442	-	-	-	30	472
2,540	-	-	-	-	5,080
-	-	-	-	-	48,264
<u>\$ 210,813</u>	<u>\$ 106,480</u>	<u>\$ 4,771</u>	<u>\$ -</u>	<u>\$ 392,536</u>	<u>\$ 1,060,924</u>
\$ 13,832	\$ 4,642	\$ -	\$ -	\$ -	\$ 37,125
-	-	-	-	-	1,710
2,540	-	-	-	-	5,080
-	-	1,148	-	-	1,148
<u>16,372</u>	<u>4,642</u>	<u>1,148</u>	<u>-</u>	<u>-</u>	<u>45,063</u>
-	-	-	-	392,536	392,536
194,441	101,838	-	-	-	511,933
-	-	3,623	-	-	111,392
<u>194,441</u>	<u>101,838</u>	<u>3,623</u>	<u>-</u>	<u>392,536</u>	<u>1,015,861</u>
<u>\$ 210,813</u>	<u>\$ 106,480</u>	<u>\$ 4,771</u>	<u>\$ -</u>	<u>\$ 392,536</u>	<u>\$ 1,060,924</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended March 31, 2013

	Special Revenue Funds			
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	268,279	68,307	-	-
Charges for services	-	-	-	-
Interest	4	2	-	5
Rents and royalties	-	-	-	-
Other revenue	-	-	-	500
Total revenues	268,283	68,309	-	505
Expenditures				
Current:				
General government	-	-	-	3,500
Public works	277,251	591,224	-	-
Public safety	-	-	216,464	-
Recreation and culture	-	-	-	-
Total expenditures	277,251	591,224	216,464	3,500
Revenues over (under) expenditures	(8,968)	(522,915)	(216,464)	(2,995)
Other financing sources (uses)				
Transfers in	-	522,537	72,100	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	522,537	72,100	-
Net change in fund balances	(8,968)	(378)	(144,364)	(2,995)
Fund balances, beginning of year	111,636	113,364	146,928	108,200
Fund balances, end of year	\$ 102,668	\$ 112,986	\$ 2,564	\$ 105,205

Capital Projects Funds				Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Downtown Parking	Cemetery Care	Total
\$ 456,186	\$ 219,249	\$ -	\$ -	\$ -	\$ 675,435
-	-	-	-	-	336,586
-	-	-	-	7,175	7,175
625	559	-	1	480	1,676
-	-	6,578	-	-	6,578
-	-	5,966	-	-	6,466
<u>456,811</u>	<u>219,808</u>	<u>12,544</u>	<u>1</u>	<u>7,655</u>	<u>1,033,916</u>
52,892	-	-	101,195	-	157,587
-	-	-	-	-	868,475
-	-	-	-	-	216,464
-	4,642	-	-	-	4,642
<u>52,892</u>	<u>4,642</u>	<u>-</u>	<u>101,195</u>	<u>-</u>	<u>1,247,168</u>
<u>403,919</u>	<u>215,166</u>	<u>12,544</u>	<u>(101,194)</u>	<u>7,655</u>	<u>(213,252)</u>
-	-	-	46,121	-	640,758
<u>(336,835)</u>	<u>(309,873)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(661,708)</u>
<u>(336,835)</u>	<u>(309,873)</u>	<u>(15,000)</u>	<u>46,121</u>	<u>-</u>	<u>(20,950)</u>
67,084	(94,707)	(2,456)	(55,073)	7,655	(234,202)
<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>\$ 194,441</u>	<u>\$ 101,838</u>	<u>\$ 3,623</u>	<u>\$ -</u>	<u>\$ 392,536</u>	<u>\$ 1,015,861</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2013

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets				
Cash and cash equivalents	\$ 278,742	\$ 477,176	\$ 442,971	\$ 1,198,889
Investments	100,000	100,000	300,000	500,000
Accounts receivable	1,388	-	-	1,388
Interest receivable	386	231	1,082	1,699
Due from other funds	53,474	-	-	53,474
Other assets	46,492	-	-	46,492
Total current assets	480,482	577,407	744,053	1,801,942
Noncurrent assets				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets being depreciated, net	-	1,034,505	65,966	1,100,471
Total noncurrent assets	-	1,055,158	128,966	1,184,124
Total assets	480,482	1,632,565	873,019	2,986,066
Liabilities				
Current liabilities				
Accounts payable	41,475	141,778	-	183,253
Accrued liabilities	11,528	2,015	-	13,543
Current portion of compensated absences	7,550	-	-	7,550
Unearned revenue	5,261	-	-	5,261
Due to other funds	45,550	-	-	45,550
Total current liabilities	111,364	143,793	-	255,157
Noncurrent liabilities				
Advance from other funds	-	46,459	-	46,459
Compensated absences - vacation	143,547	-	-	143,547
Total noncurrent liabilities	143,547	46,459	-	190,006
Total liabilities	254,911	190,252	-	445,163
Net position				
Net investment in capital assets	-	1,008,699	128,966	1,137,665
Unrestricted	225,571	433,614	744,053	1,403,238
Total net position	\$ 225,571	\$ 1,442,313	\$ 873,019	\$ 2,540,903

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Net Position

Internal Service Funds

For the Year Ended March 31, 2013

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,108,982	\$ 653,352	\$ -	\$ 2,762,334
Operating expenses				
Personnel services	2,004,805	149,435	-	2,154,240
Contractual services	6,115	24,143	-	30,258
Supplies	-	113,928	-	113,928
Utilities	-	8,788	-	8,788
Repairs and maintenance	-	74,312	-	74,312
Depreciation	-	147,500	10,818	158,318
Miscellaneous	1,340	529	-	1,869
Total operating expenses	2,012,260	518,635	10,818	2,541,713
Operating income (loss)	96,722	134,717	(10,818)	220,621
Nonoperating revenues (expenses)				
Interest revenue	368	484	1,209	2,061
Loss on sale of capital assets	-	(17,563)	-	(17,563)
Other revenue (expense)	260	(3,307)	-	(3,047)
Total nonoperating revenues (expenses)	628	(20,386)	1,209	(18,549)
Income (loss) before transfers	97,350	114,331	(9,609)	202,072
Transfers				
Transfers in	-	15,000	205,500	220,500
Transfers out	-	(96,400)	-	(96,400)
Total transfers	-	(81,400)	205,500	124,100
Changes in net position	97,350	32,931	195,891	326,172
Net position, beginning of year	128,221	1,409,382	677,128	2,214,731
Net position, end of year	\$ 225,571	\$ 1,442,313	\$ 873,019	\$ 2,540,903

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2013

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,112,972	\$ 653,619	\$ -	\$ 2,766,591
Cash payments to employees	(1,993,135)	(149,441)	-	(2,142,576)
Cash payments to suppliers for goods and services	(12,244)	(110,638)	-	(122,882)
Net cash provided by operating activities	107,593	393,540	-	501,133
Cash flows from noncapital financing activities				
Other receipts (payments)	260	(3,307)	-	(3,047)
Repayment on advance from other funds	-	(14,694)	-	(14,694)
Transfers in	-	15,000	205,500	220,500
Transfers out	-	(96,400)	-	(96,400)
Net cash provided by (used in) noncapital financing activities	260	(99,401)	205,500	106,359
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	11,183	-	11,183
Purchase of capital assets	-	(336,382)	-	(336,382)
Net cash used in capital and related financing activities	-	(325,199)	-	(325,199)
Cash flows from investing activities				
Proceeds from matured investments	95,982	-	-	95,982
Purchase of investments	(100,000)	-	(300,000)	(400,000)
Investment income	237	348	181	766
Net cash used in investing activities	(3,781)	348	(299,819)	(303,252)
Net increase (decrease) in cash and cash equivalents	104,072	(30,712)	(94,319)	(20,959)
Cash and cash equivalents, beginning of year	174,670	507,888	537,290	1,219,848
Cash and cash equivalents, end of year	\$ 278,742	\$ 477,176	\$ 442,971	\$ 1,198,889

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2013

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 96,722	\$ 134,717	\$ (10,818)	\$ 220,621
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	147,500	10,818	158,318
Changes in assets and liabilities				
Accounts receivable	(1,271)	267	-	(1,004)
Other assets	(3,347)	43	-	(3,304)
Accounts payable	(1,442)	111,019	-	109,577
Accrued liabilities	8,164	(6)	-	8,158
Deferred revenue	5,261	-	-	5,261
Accrued compensated absences	3,506	-	-	3,506
Net cash provided by operating activities	<u>\$ 107,593</u>	<u>\$ 393,540</u>	<u>\$ -</u>	<u>\$ 501,133</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position Downtown Development Authority Component Unit March 31, 2013

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 598,687	\$ -	\$ 598,687
Investments	50,000	-	50,000
Receivables	1,864	-	1,864
Other assets	380	4,153	4,533
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	3,178,503	3,178,503
Total assets	\$ 650,931	4,105,727	4,756,658
Liabilities			
Accounts payable	\$ 1,515	4,838	6,353
Accrued liabilities	695	(695)	-
Current portion of long-term debt	-	285,000	285,000
Total liabilities	2,210	289,143	291,353
Fund balance			
Restricted	648,721	(648,721)	
Total liabilities and fund balance	\$ 650,931		
Net position			
Net investment in capital assets		3,816,574	3,816,574
Restricted		648,731	648,731
Total net position		\$ 4,465,305	\$ 4,465,305

CITY OF CHARLEVOIX, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities**
Downtown Development Authority Component Unit
For the Year Ended March 31, 2013

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 707,179	\$ -	\$ 707,179
Rents	48,638	-	48,638
Miscellaneous	39,563	-	39,563
	<u>795,380</u>	<u>-</u>	<u>795,380</u>
Total revenues			
Expenditures / expenses			
Current:			
Other functions	428,434	190,795	619,229
Debt service:			
Principal	275,000	(275,000)	-
Interest and fiscal charges	18,913	(18,913)	-
	<u>722,347</u>	<u>(103,118)</u>	<u>619,229</u>
Total expenditures / expenses			
Change in fund balance / net position	73,033	103,118	176,151
Fund balance / net position, beginning of year	575,688	3,713,466	4,289,154
Fund balance / net position, end of year	<u>\$ 648,721</u>	<u>\$ 3,816,584</u>	<u>\$ 4,465,305</u>

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INTERNAL CONTROL AND COMPLIANCE

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

September 11, 2013

City Council
City of Charlevoix
Charlevoix County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 11, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control 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 a 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 as Finding 2013-FS-1 below to be a material weakness.

Finding 2013-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 certain 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to the City Council in a separate letter dated September 11, 2013.

City's Response to Findings

The City's response to the finding identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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