

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2015

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

Mayor	Gabe Campbell
Mayor Pro Tem	Jeffrey Porter
Council Member	Luther Kurtz
Council Member	Leon Perron
Council Member	Bill Supernaw
Council Member	Shane Cole
Council Member	Shirley Gibson

Appointed Officials

City Manager	Mark Heydlauff
Attorney	Scott Howard
Clerk	Joyce Golding
Treasurer	Kelly McGinn
Planning Director/Zoning Administrator	Zach Panoff
Police Chief/Fire Chief	Gerard Doan
DPW Superintendent	Pat Elliott
Electric Superintendent	Donald Swem
WWTP/WTP Superintendent	Steve Teunis
Community Economic Development Director	Anne Doyle
Airport Manager	Liz Myer
Harbormaster	Hal Evans
Recreation Director	Thomas Kirinovic
Director of Golf	Tom Heid

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INDEPENDENT AUDITORS' REPORT

September 29, 2015

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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, 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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive style with a small vertical line under the "n" in "Lobson".

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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, 2015.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by approximately \$62,444,000 (net position). Of this amount, approximately \$11,568,000 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net position increased by approximately \$1,467,000.
- At March 31, 2015, the City's governmental funds reported combined ending fund balances of approximately \$2,569,000, an increase of approximately \$554,000 from the prior year. Approximately 46% of this total amount or approximately \$1,174,000 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 \$1,174,000 or 35% percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

The *statement of net 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, sewage disposal, water distribution, 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, 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 employee fringe benefits, motor pool, 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 \$62,444,000 at the close of the most recent fiscal year.

By far the largest portion of the City's net position (80 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 (18 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 3,617,582	\$ 2,985,713	\$ 10,613,919	\$ 8,976,520	\$ 14,231,501	\$ 11,962,233
Capital assets, net	26,271,007	26,404,155	31,080,929	28,900,191	57,351,936	55,304,346
	<u>29,888,589</u>	<u>29,389,868</u>	<u>41,694,848</u>	<u>37,876,711</u>	<u>71,583,437</u>	<u>67,266,579</u>
Liabilities						
Other liabilities	293,040	233,664	1,693,442	939,946	1,986,482	1,173,610
Long-term liabilities	200,307	270,898	6,952,378	4,845,268	7,152,685	5,116,166
	<u>493,347</u>	<u>504,562</u>	<u>8,645,820</u>	<u>5,785,214</u>	<u>9,139,167</u>	<u>6,289,776</u>
Net position						
Net investment in capital assets	26,271,007	26,404,155	23,435,551	23,358,423	49,706,558	49,762,578
Restricted	1,169,565	689,475	-	-	1,169,565	689,475
Unrestricted	1,954,670	1,791,676	9,613,477	8,733,074	11,568,147	10,524,750
Total net position	<u>\$ 29,395,242</u>	<u>\$ 28,885,306</u>	<u>\$ 33,049,028</u>	<u>\$ 32,091,497</u>	<u>\$ 62,444,270</u>	<u>\$ 60,976,803</u>

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

The City's net position increased by approximately \$1,467,000 during the current fiscal year.

	Change in Net position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues						
Charges for services	\$ 886,458	\$ 880,138	\$ 9,767,530	\$ 9,417,375	\$ 10,653,988	\$ 10,297,513
Operating grants and contributions	443,272	439,888	562,023	743,180	1,005,295	1,183,068
Capital grants and contributions	-	-	957,372	209,000	957,372	209,000
General revenues						
Property taxes	2,944,410	2,908,352	-	-	2,944,410	2,908,352
State shared revenue	242,901	234,545	-	-	242,901	234,545
Other revenues	56,237	17,207	-	-	56,237	17,207
Unrestricted investment earnings	7,677	7,002	-	-	7,677	7,002
Total revenues	<u>4,580,955</u>	<u>4,487,132</u>	<u>11,286,925</u>	<u>10,369,555</u>	<u>15,867,880</u>	<u>14,856,687</u>
Expenses:						
Legislative	90,090	40,219	-	-	90,090	40,219
General government	610,047	693,278	-	-	610,047	693,278
Public safety	1,171,592	1,180,816	-	-	1,171,592	1,180,816
Public works	685,754	753,550	-	-	685,754	753,550
Health and welfare	369,640	356,386	-	-	369,640	356,386
Recreation and culture	1,018,071	980,043	-	-	1,018,071	980,043
Other	21,865	65,353	-	-	21,865	65,353
Electric utility	-	-	5,186,248	5,448,357	5,186,248	5,448,357
Sewage disposal utility	-	-	1,197,858	1,179,008	1,197,858	1,179,008
Water utility	-	-	1,298,506	1,090,569	1,298,506	1,090,569
Marina	-	-	1,118,025	1,128,114	1,118,025	1,128,114
Airport	-	-	1,632,717	1,629,984	1,632,717	1,629,984
Total expenses	<u>3,967,059</u>	<u>4,069,645</u>	<u>10,433,354</u>	<u>10,476,032</u>	<u>14,400,413</u>	<u>14,545,677</u>

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CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

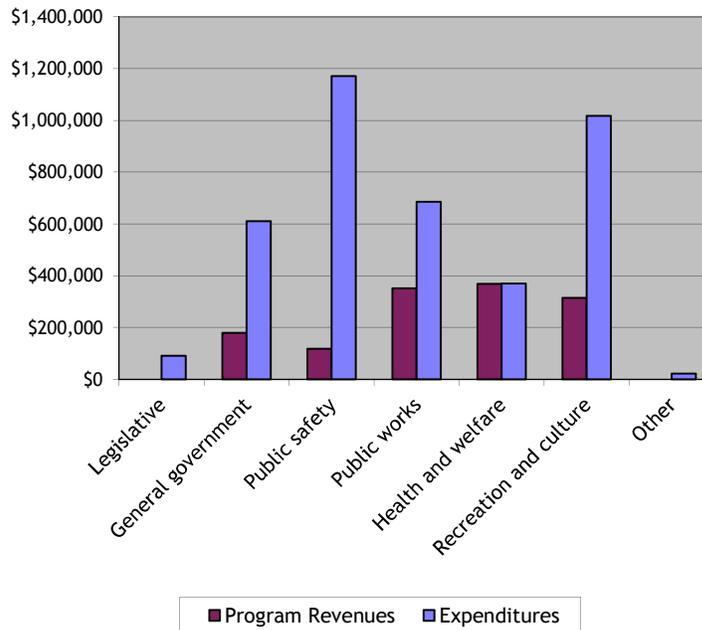
	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Change in net position, before transfers	\$ 613,896	\$ 417,487	\$ 853,571	\$ (106,477)	\$ 1,467,467	\$ 311,010
Transfers	(103,960)	(161,443)	103,960	161,443	-	-
Change in net position	509,936	256,044	957,531	54,966	1,467,467	311,010
Net position:						
Beginning of year	28,885,306	28,629,262	32,091,497	32,036,531	60,976,803	60,665,793
End of year	\$ 29,395,242	\$ 28,885,306	\$ 33,049,028	\$ 32,091,497	\$ 62,444,270	\$ 60,976,803

Concluded

Governmental Activities. Governmental activities increased the City's net position by approximately \$510,000. Key elements of this increase are as follows:

- Total governmental activities revenue increased by approximately \$94,000 or 2.09% compared to prior year, with the most significant increases in the property tax revenue (\$36,058 or 1.24%) and other revenues (\$39,030 or 1.23%). The increase in property tax revenue was due to increases in taxable values attributable to the slow recovery of the housing market. The increase in other revenues resulted mainly from gain on sales of capital assets.
- Total expenses for governmental activities decreased approximately \$103,000 from the previous fiscal year. The reduction is largely attributable to decreases in general government expenditures, public works, and other expenses, resulting from staffing changes and reductions, with offsetting increases in recreation and culture and legislative expenses.

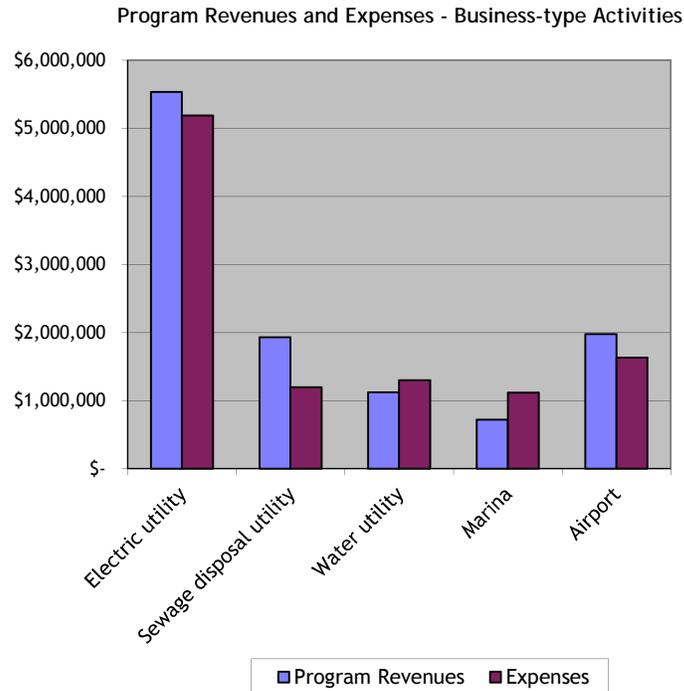
Program Revenues and Expenses - Governmental Activities



CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Net position of the business-type activities increased by approximately \$958,000 during the fiscal year. The increase was mainly attributable to an approximately \$350,000 increase in charges for services over prior year resulting from adjustment of sewer rates in connection with the waste water treatment plant improvement project and from an increase in capital grants and contributions (approximately \$748,000) related to the airport and sewer system improvements.



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 \$2,569,000, an increase of approximately \$554,000 from prior year. This increase was attributable primarily to a reduction in public works expenditures due to completion of major road maintenance projects in fiscal 2014. A significant portion of the fund balances, approximately \$1,174,000 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.

General Fund Budgetary Highlights

During the year, General Fund revenues were higher than budgetary estimates by approximately \$48,000 while expenditures were lower than budgetary estimates by approximately \$152,000. However, General Fund transfers to other City funds exceeded the budget by approximately \$9,000. This resulted in an increase in the fund balance of approximately \$142,000 compared to a budgeted decrease of approximately \$50,000. There were no significant budget amendments made during the year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements business-type activities, 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 \$7,994,000 and the net investment in capital assets was approximately \$23,319,000. The changes in enterprise fund net positions were as follows:

- Electric utility activities increased the City's net position by approximately \$106,000 with charges for services exceeding expenses by approximately \$303,000, nearly \$16,000 in interest revenues, and offsetting net transfer out of approximately \$213,000.
- Sewage disposal utility activities increased the City's net position by approximately \$762,000. This was due to the excess of charges for services over the expenses of approximately \$345,000 and substantial amount of state revenues the City received in 2015.
- Water utility activities decreased the City's net position by approximately \$142,000 as charges for services and federal grants were not sufficient to cover fund expenses in current year.
- Marina activities negatively impacted the City's net position by approximately \$404,000 primarily due to depreciation expense of approximately \$658,000 and the Marina's contribution to the Marina / East Park debt obligations.
- Airport activities increased the City's net position by approximately \$340,000, primarily due to the City receiving \$608,000 in capital grants and contributions for the terminal apron rehabilitation project, part of which offset the excess of expenses over charges for services.

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, 2015, amounted to approximately \$57,352,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

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

- Wastewater Treatment Plant Improvements
- W. Garfield Avenue, Lewis Street and Clinton Street infrastructure projects
- Infrastructure Projects: State Street, Lewis Street carryover & engineering
- Airport apron reconstruction and expansion project
- Pine River Avenue engineering
- Lake to Lake Trail design and engineering
- Vehicle, equipment and software purchases
- Electric and water utility system improvements

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 16,932,797	\$ 16,932,797	\$ 1,569,534	\$ 1,569,534	\$ 18,502,331	\$ 18,502,331
Construction in progress	-	-	2,982,451	-	2,982,451	-
Land improvements	1,338,702	1,406,340	12,582,381	12,775,706	13,921,083	14,182,046
Infrastructure	2,783,007	2,792,353	-	-	2,783,007	2,792,353
Buildings and improvements	3,571,570	3,750,110	3,863,828	4,039,495	7,435,398	7,789,605
System improvements	-	-	9,517,484	9,862,462	9,517,484	9,862,462
Machinery and equipment	652,207	658,551	565,251	652,994	1,217,458	1,311,545
Vehicles	992,724	864,004	-	-	992,724	864,004
Total capital assets, net	\$ 26,271,007	\$ 26,404,155	\$ 31,080,929	\$ 28,900,191	\$ 57,351,936	\$ 55,304,346

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 outstanding of approximately \$17,000 as well as bonds related to the construction of the marina with a balance of \$4,560,000. The City has pledged its full faith and credit towards the above obligations. Additionally, in the current fiscal year the City issued revenue bonds to fund the wastewater treatment plant improvement project. The outstanding balance at fiscal year end amounted to approximately \$2,375,000.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Marina limited tax general obligation bonds	\$ -	\$ -	\$ 4,560,000	\$ 4,800,000	\$ 4,560,000	\$ 4,800,000
Sewage disposal utility fund revenue bonds	-	-	2,375,318	-	2,375,318	-
Installment purchase agreement	-	-	17,060	33,463	17,060	33,463
MDOT loan	-	-	-	11,805	-	11,805
Compensated absences	200,307	270,898	-	-	200,307	270,898
Total	\$ 200,307	\$ 270,898	\$ 6,952,378	\$ 4,845,268	\$ 7,152,685	\$ 5,116,166

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 \$23,847,222, 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 the 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 2015-16 fiscal year:

- The unemployment rate for Michigan is currently 5.5% and the national average rate is 5.3%.
- The local, state and national economies continue to slowly improve. The City's taxable values have stabilized as foreclosures have decreased and new construction projects within the City have started to increase.
- The tax collection rate for the year was 96% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.
- For the 2015 tax year, the operating millage of 9.05 mills remained the same as the 2014 tax year to enable the same level of service to taxpayers provided by the General Fund. The infrastructure millage remained at 2.0593 mills as well. The refuse millage (PA 213) remained at 1.0 mills. Overall, the 2015 tax rates remained the same as 2014.
- Sewer rates increased 22.0%, in line with a 2014 cost of service study, to build a sufficient cash balance in order to meet the debt obligations and covenants related to the approximately \$10 million project to upgrade the City's Wastewater Treatment Plant.
- Water rates increased 5%, as suggested by a 2014 cost of service study, to offset losses and to fund future capital improvements planned in the fund.
- Electric rates increased 2%, per a 2015 cost of service study.
- Wage rates increased 1% for CWA and POLC union employees per their labor contracts with the City. The City's non-union employees also received a 1% rate increase effective April 2015.
- Rates were increased for the golf course, Mt. McSauba ski hill and day camp, marina and airport to offset additional operating costs in these areas.
- The employee fringe benefit fund rates were decreased 1.0% for all funds for 2015/16 due to the fund having a sufficient reserve to manage healthcare, pension and other employee benefit costs.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

- The City offers its full-time employees a retirement pension through the Municipal Employees' Retirement System of Michigan (MERS). Based on the latest annual actuarial valuation report from MERS dated December 31, 2014, the City's plan is 73% funded, down from the 75% reported for the previous year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,936,520	\$ 5,402,767	\$ 8,339,287	\$ 682,086
Cash with fiscal agent	-	95,413	95,413	-
Investments	876,765	1,981,428	2,858,193	50,000
Receivables, net	271,950	2,002,831	2,274,781	5,108
Internal balances	(522,997)	522,997	-	-
Other assets	55,344	383,483	438,827	304
Restricted investments	-	225,000	225,000	-
Capital assets not being depreciated	16,932,797	4,551,985	21,484,782	923,071
Capital assets being depreciated, net	9,338,210	26,528,944	35,867,154	2,827,407
Total assets	29,888,589	41,694,848	71,583,437	4,487,976
Liabilities				
Accounts payable and accrued liabilities	241,798	1,664,496	1,906,294	4,693
Unearned revenue	51,242	28,946	80,188	500
Long-term liabilities:				
Due within one year	161,119	272,060	433,179	-
Due in more than one year	39,188	6,680,318	6,719,506	-
Total liabilities	493,347	8,645,820	9,139,167	5,193
Net position				
Net investment in capital assets	26,271,007	23,435,551	49,706,558	3,750,478
Restricted for:				
Perpetual care	406,165	-	406,165	-
Drug forfeiture	2,000	-	2,000	-
Street improvements	363,652	-	363,652	-
Capital projects	397,748	-	397,748	-
Downtown development	-	-	-	732,305
Unrestricted	1,954,670	9,613,477	11,568,147	-
Total net position	\$ 29,395,242	\$ 33,049,028	\$ 62,444,270	\$ 4,482,783

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2015

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 90,090	\$ -	\$ -	\$ -	\$ (90,090)
General government	610,047	173,496	5,027	-	(431,524)
Public safety	1,171,592	53,032	64,237	-	(1,054,323)
Public works	685,754	1,535	349,204	-	(335,015)
Health and welfare	369,640	368,855	-	-	(785)
Recreation and culture	1,018,071	289,540	24,804	-	(703,727)
Other expenditures	21,865	-	-	-	(21,865)
Total governmental activities	3,967,059	886,458	443,272	-	(2,637,329)
Business-type activities:					
Electric utility	5,186,248	5,519,450	15,931	-	349,133
Sewage disposal utility	1,197,858	1,577,572	4,716	349,373	733,803
Water utility	1,298,506	924,998	196,911	-	(176,597)
Marina	1,118,025	376,039	343,499	-	(398,487)
Airport	1,632,717	1,369,471	966	607,999	345,719
Total business-type activities	10,433,354	9,767,530	562,023	957,372	853,571
Total primary government	\$ 14,400,413	\$ 10,653,988	\$ 1,005,295	\$ 957,372	\$ (1,783,758)
Component unit					
Downtown Development Authority	\$ 681,380	\$ 77,235	\$ 48,157	\$ -	\$ (555,988)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net revenue (expense)	\$ (2,637,329)	\$ 853,571	\$ (1,783,758)	\$ (555,988)
General revenues:				
Property taxes	2,944,410	-	2,944,410	416,811
State shared revenues	242,901	-	242,901	-
Other revenue	56,237	-	56,237	-
Unrestricted investment earnings	7,677	-	7,677	-
Transfers - internal activities	(103,960)	103,960	-	-
Total general revenues and transfers	3,147,265	103,960	3,251,225	416,811
Change in net position	509,936	957,531	1,467,467	(139,177)
Net position, beginning of year	28,885,306	32,091,497	60,976,803	4,621,960
Net position, end of year	\$ 29,395,242	\$ 33,049,028	\$ 62,444,270	\$ 4,482,783

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, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 876,294	\$ 941,910	\$ 1,818,204
Investments	400,000	276,765	676,765
Accounts receivable, net	63,842	600	64,442
Taxes receivable	72,496	25,356	97,852
Interest receivable	1,073	352	1,425
Other assets	2,382	-	2,382
Due from other funds	37,583	5,080	42,663
Due from other governmental units	49,655	51,886	101,541
Total assets	\$ 1,503,325	\$ 1,301,949	\$ 2,805,274
Liabilities			
Accounts payable	\$ 68,814	\$ 12,232	\$ 81,046
Accrued liabilities	30,436	1,553	31,989
Due to other funds	59,642	5,080	64,722
Unearned revenue	47,017	587	47,604
Total liabilities	205,909	19,452	225,361
Deferred inflows of resources			
Unavailable revenue - long-term receivable	10,863	-	10,863
Fund balances			
Nonspendable	2,382	406,165	408,547
Restricted	2,000	761,400	763,400
Assigned	108,500	114,932	223,432
Unassigned	1,173,671	-	1,173,671
Total fund balances	1,286,553	1,282,497	2,569,050
Total liabilities, deferred inflows of resources and fund balances	\$ 1,503,325	\$ 1,301,949	\$ 2,805,274

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
March 31, 2015

Fund balances - total governmental funds	\$ 2,569,050
Amounts reported for <i>governmental activities</i> 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 funds.	
Capital assets not being depreciated	16,932,797
Capital assets being depreciated, net	9,338,210
Capital assets accounted for in governmental activities internal service funds, net	(1,172,459)
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	2,290,292
Net position allocated to business-type activities from governmental activities internal service funds	(508,862)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Unavailable revenue - long-term receivables	10,863
Certain liabilities, such as compensated absences, are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences - sick leave	<u>(64,649)</u>
Net position of governmental activities	<u>\$ 29,395,242</u>

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended March 31, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,262,872	\$ 681,538	\$ 2,944,410
State revenue	244,243	353,398	597,641
Licenses and permits	3,970	-	3,970
Charges for services	730,153	2,875	733,028
Fines and forfeits	22,825	-	22,825
Interest	3,535	2,216	5,751
Rents and royalties	117,799	7,002	124,801
Other revenue	100,257	-	100,257
Total revenues	3,485,654	1,047,029	4,532,683
Expenditures			
Current:			
Legislative	90,254	-	90,254
General government	521,606	44,549	566,155
Public safety	1,127,390	138,069	1,265,459
Public works	218,303	398,129	616,432
Health and welfare	376,079	-	376,079
Recreation and culture	937,807	20	937,827
Other expenditures	21,865	-	21,865
Total expenditures	3,293,304	580,767	3,874,071
Revenues over expenditures	192,350	466,262	658,612
Other financing sources (uses)			
Transfers in	9,500	167,000	176,500
Transfers out	(60,160)	(221,000)	(281,160)
Total other financing sources (uses)	(50,660)	(54,000)	(104,660)
Net change in fund balances	141,690	412,262	553,952
Fund balances, beginning of year	1,144,863	870,235	2,015,098
Fund balances, end of year	\$ 1,286,553	\$ 1,282,497	\$ 2,569,050

The accompanying notes are an integral part of these basic 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, 2015

Net change in fund balances - total governmental funds \$ 553,952

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

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

Capital outlay	276,733
Depreciation expense	(479,048)

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.

Change in long-term receivables	(3,622)
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Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from governmental activities accounted for in internal service funds	191,122
Change in net position from governmental activities accounted for in internal service funds charged to business-type activities.	(78,432)

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

Net decrease in compensated absences - sick leave	49,231
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Change in net position of governmental activities	<u>\$ 509,936</u>
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The accompanying notes are an integral part of these basic 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, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 2,217,300	\$ 2,163,023	\$ 2,231,483	\$ 68,460
Payments in lieu of taxes	3,500	3,992	3,992	-
Interest and penalties on taxes	11,800	8,000	8,305	305
Tax collection fees	18,500	18,000	19,092	1,092
Total taxes	2,251,100	2,193,015	2,262,872	69,857
State revenue	450,800	239,371	244,243	4,872
Licenses and permits	4,200	4,000	3,970	(30)
Charges for services:				
Fire runs	63,400	55,064	53,032	(2,032)
Ambulance runs	260,000	245,000	276,979	31,979
Ambulance contracts	90,100	91,876	91,876	-
Cemetery	41,600	42,000	31,234	(10,766)
Golf course	126,500	113,674	113,674	-
Summer sports	6,500	5,116	5,484	368
Day camp	67,400	67,985	71,529	3,544
Winter sports	50,000	50,000	54,081	4,081
Basketball	400	-	-	-
Skate park	1,900	3,156	1,868	(1,288)
Parking	21,200	25,534	25,534	-
Other	5,500	4,741	4,862	121
Total charges for services	734,500	704,146	730,153	26,007
Fines and forfeitures	24,200	16,904	22,825	5,921
Interest	4,000	2,500	3,535	1,035
Rents and royalties:				
City hall	96,400	96,400	97,700	1,300
Boat launch/harbor building	21,700	20,199	20,099	(100)
Total rents and royalties	118,100	116,599	117,799	1,200
Other revenue	73,800	160,633	100,257	(60,376)
Total revenues	3,660,700	3,437,168	3,485,654	48,486

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (Concluded)				
Current:				
Legislative:				
City council	\$ 43,700	\$ 111,635	\$ 90,254	\$ (21,381)
General government:				
Mayor	9,500	8,969	6,647	(2,322)
City manager	120,500	126,139	121,405	(4,734)
Elections	17,000	25,042	19,544	(5,498)
Assessor	57,400	57,367	58,883	1,516
City attorney	80,300	45,100	34,279	(10,821)
City clerk	48,000	43,139	38,778	(4,361)
City treasurer	64,500	64,111	53,239	(10,872)
City hall and grounds	124,600	134,995	110,962	(24,033)
Cemetery	77,200	81,351	77,869	(3,482)
Total general government	599,000	586,213	521,606	(64,607)
Public safety:				
Police department	772,800	734,004	750,789	16,785
Parking law enforcement	8,400	6,819	6,446	(373)
Fire department	324,200	329,228	306,154	(23,074)
Planning department	67,900	66,478	64,001	(2,477)
Total public safety	1,173,300	1,136,529	1,127,390	(9,139)
Public works:				
Highways and streets	11,700	250	242	(8)
Leaf pick up	127,800	125,682	122,157	(3,525)
Waste collection	38,600	45,100	46,389	1,289
Brush pickup	52,000	54,066	49,515	(4,551)
Total public works	230,100	225,098	218,303	(6,795)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Current:				
Health and welfare:				
Ambulance	\$ 405,900	\$ 387,807	\$ 376,079	\$ (11,728)
Recreation and culture:				
Parks	770,000	439,115	450,977	11,862
Recreation administration	41,600	47,567	44,399	(3,168)
City beaches	19,000	24,835	23,649	(1,186)
Ball fields	14,700	12,108	12,214	106
Day camp	67,600	63,213	59,455	(3,758)
Ice rink	4,600	8,478	4,313	(4,165)
Mt. McSauba ski hill	111,200	105,199	98,920	(6,279)
Basketball and volleyball	2,800	2,500	2,156	(344)
Golf course	205,600	214,553	208,087	(6,466)
Boat launch	19,200	17,260	20,744	3,484
Skate park	4,400	3,767	3,590	(177)
Community promotion	8,800	9,200	9,303	103
Total recreation and culture	1,269,500	947,795	937,807	(9,988)
Other expenditures	35,300	50,723	21,865	(28,858)
Total expenditures	3,756,800	3,445,800	3,293,304	(152,496)
Revenues over (under) expenditures	(96,100)	(8,632)	192,350	200,982
Other financing sources (uses)				
Transfers in	58,000	9,500	9,500	-
Transfers out	(50,700)	(50,700)	(60,160)	9,460
Total other financing sources (uses)	7,300	(41,200)	(50,660)	9,460
Net change in fund balance	(88,800)	(49,832)	141,690	191,522
Fund balance, beginning of year	1,144,863	1,144,863	1,144,863	-
Fund balance, end of year	\$ 1,056,063	\$ 1,095,031	\$ 1,286,553	\$ 191,522

Concluded

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

Proprietary Funds

March 31, 2015

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,301,823	\$ 1,348,730	\$ 92	\$ 42,061
Investments	1,421,242	40,583	44,603	75,000
Cash at fiscal agent	-	2,215	-	93,198
Accounts receivable, net	957,371	775,228	197,370	-
Interest receivable	3,185	47	49	286
Due from other funds	1,600	6,168	2,540	7,967
Other assets	1,572	1,579	1,547	26,836
Inventory	245,849	-	53,521	-
Total current assets	5,932,642	2,174,550	299,722	245,348
Noncurrent assets:				
Restricted investments for replacement	75,000	75,000	75,000	-
Advance to other funds	853,000	-	-	-
Capital assets, not being depreciated	187,613	3,327,576	13,730	-
Capital assets, net of accumulated depreciation	4,368,236	4,080,532	4,244,444	8,755,405
Total noncurrent assets	5,483,849	7,483,108	4,333,174	8,755,405
Total assets	11,416,491	9,657,658	4,632,896	9,000,753
Liabilities				
Current liabilities:				
Accounts payable	387,216	674,690	26,758	5,416
Accrued liabilities	18,084	237,507	15,717	93,952
Customer deposits	69,419	-	-	65,749
Current portion of bonds and notes payable	-	-	-	255,000
Current portion of compensated absences	-	-	-	-
Due to other funds	-	-	2,540	-
Unearned revenue	-	-	-	-
Total current liabilities	474,719	912,197	45,015	420,117
Noncurrent liabilities:				
Advance from other funds	-	-	-	693,000
Bonds payable, net of current portion	-	2,375,318	-	4,305,000
Compensated absences, net of current portion	-	-	-	-
Total noncurrent liabilities	-	2,375,318	-	4,998,000
Total liabilities	474,719	3,287,515	45,015	5,418,117
Net position				
Net investment in capital assets	4,555,849	5,032,790	4,258,174	3,502,405
Unrestricted (deficit)	6,385,923	1,337,353	329,707	80,231
Total net position	\$ 10,941,772	\$ 6,370,143	\$ 4,587,881	\$ 3,582,636

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

Airport	Total	Internal Service Funds
\$ 201	\$ 4,692,907	\$ 1,828,176
-	1,581,428	600,000
-	95,413	-
68,296	1,998,265	5,968
-	3,567	1,721
-	18,275	53,474
2,805	34,339	52,962
49,774	349,144	-
<u>121,076</u>	<u>8,773,338</u>	<u>2,542,301</u>
-	225,000	-
-	853,000	-
960,066	4,488,985	83,653
5,026,319	26,474,936	1,205,814
<u>5,986,385</u>	<u>32,041,921</u>	<u>1,289,467</u>
<u>6,107,461</u>	<u>40,815,259</u>	<u>3,831,768</u>
64,079	1,158,159	114,991
5,909	371,169	13,772
-	135,168	-
17,060	272,060	-
-	-	132,898
1,600	4,140	45,550
28,946	28,946	3,638
<u>117,594</u>	<u>1,969,642</u>	<u>310,849</u>
160,000	853,000	-
-	6,680,318	-
-	-	2,760
<u>160,000</u>	<u>7,533,318</u>	<u>2,760</u>
<u>277,594</u>	<u>9,502,960</u>	<u>313,609</u>
5,969,325	23,318,543	1,289,467
(139,458)	7,993,756	2,228,692
<u>\$ 5,829,867</u>	<u>\$ 31,312,299</u>	<u>\$ 3,518,159</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-Type Activities
March 31, 2015

Net position - total enterprise funds \$ 31,312,299

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. Certain internal service funds net position is allocated to the business-type activities and reported in the statement of net position.

Net position of business-type activities accounted for in business-type activity internal service funds	1,227,867
Net position allocated to business-type activities from governmental activities internal service funds	<u>508,862</u>

Net position of business-type activities \$ 33,049,028

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position

Proprietary Funds

For the Year Ended March 31, 2015

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,519,450	\$ 1,577,572	\$ 924,998	\$ 376,039
Operating expenses				
Purchased power	3,173,620	-	-	-
Fuel purchases	-	-	-	-
Personnel services	1,030,198	552,961	625,356	126,555
Contractual services	97,684	118,028	180,232	37,623
Insurance	15,565	12,216	4,415	2,799
Building rental	50,200	23,100	23,100	-
Equipment rental	100,572	75,625	64,862	630
Supplies	59,965	65,712	58,991	7,985
Utilities	64,580	137,316	55,024	62,978
Repairs and maintenance	61,779	28,532	70,859	18,344
Depreciation	506,096	184,910	229,140	658,048
Amortization	-	-	-	2,440
Miscellaneous	56,625	14,196	5,850	7,895
Total operating expenses	5,216,884	1,212,596	1,317,829	925,297
Operating income (loss)	302,566	364,976	(392,831)	(549,258)
Nonoperating revenues (expenses)				
Interest revenue	15,323	1,308	612	499
Gain on sale of capital assets	-	-	-	-
Other revenue	608	-	-	325,000
Federal revenue	-	-	114,229	-
State revenue	-	349,373	82,070	18,000
Interest expense	-	(2,215)	-	(194,978)
Total nonoperating revenues (expenses)	15,931	348,466	196,911	148,521
Income (loss) before transfers	318,497	713,442	(195,920)	(400,737)
Transfers				
Transfers in	13,500	85,000	54,209	-
Transfers out	(226,100)	(36,200)	-	(3,500)
Total transfers	(212,600)	48,800	54,209	(3,500)
Change in net position	105,897	762,242	(141,711)	(404,237)
Net position, beginning of year	10,835,875	5,607,901	4,729,592	3,986,873
Net position, end of year	\$ 10,941,772	\$ 6,370,143	\$ 4,587,881	\$ 3,582,636

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

Airport	Total	Internal Service Funds
\$ 1,369,471	\$ 9,767,530	\$ 2,923,332
-	3,173,620	-
946,946	946,946	-
261,680	2,596,750	2,305,862
13,413	446,980	32,651
8,212	43,207	-
-	96,400	-
70	241,759	-
4,322	196,975	101,290
30,570	350,468	12,410
27,750	207,264	108,738
301,200	1,879,394	225,902
-	2,440	-
41,054	125,620	1,500
<u>1,635,217</u>	<u>10,307,823</u>	<u>2,788,353</u>
<u>(265,746)</u>	<u>(540,293)</u>	<u>134,979</u>
-	17,742	5,334
-	-	47,600
-	325,608	2,368
607,999	722,228	-
966	450,409	-
(3,221)	(200,414)	-
<u>605,744</u>	<u>1,315,573</u>	<u>55,302</u>
<u>339,998</u>	<u>775,280</u>	<u>190,281</u>
42,951	195,660	284,100
(10,000)	(275,800)	(99,300)
<u>32,951</u>	<u>(80,140)</u>	<u>184,800</u>
372,949	695,140	375,081
<u>5,456,918</u>	<u>30,617,159</u>	<u>3,143,078</u>
<u>\$ 5,829,867</u>	<u>\$ 31,312,299</u>	<u>\$ 3,518,159</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Change in Net Position of Enterprise Funds
to Change in Net Position of Business-Type Activities
For the Year Ended March 31, 2015

Change in net position - total enterprise funds	\$ 695,140
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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. The net increase (decrease) in the net position of certain internal service funds 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	183,959
Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities	<u>78,432</u>

Change in net position of business-type activities	<u><u>\$ 957,531</u></u>
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The accompanying notes are an integral part of these basic financial statements.

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2015

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,447,291	\$ 921,248	\$ 806,847	\$ 393,768
Cash received from interfund services	-	-	-	-
Cash payments to employees	(1,026,124)	(321,274)	(618,755)	(126,426)
Cash payments to suppliers for goods and services	(3,588,411)	(315,829)	(456,440)	(137,183)
Net cash provided by (used in) operating activities	832,756	284,145	(268,348)	130,159
Cash flows from noncapital financing activities				
Other receipts	608	-	-	325,000
Federal receipts	-	-	114,229	-
State receipts	-	-	82,070	18,000
Repayment on advance to other funds	-	-	-	(3,500)
Transfers in	13,500	85,000	54,209	-
Transfers out	(226,100)	(36,200)	-	(3,500)
Net cash provided by (used in) noncapital financing activities	(211,992)	48,800	250,508	336,000
Cash flows from capital and related financing activities				
Federal receipts	-	-	-	-
State receipts	-	429,835	-	-
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(400,346)	(2,756,361)	(17,013)	(21,550)
Proceeds from issuance of long-term debt	-	2,375,318	-	-
Bond and loan principal payments	-	-	-	(240,000)
Bond and loan interest payments	-	-	-	(199,778)
Net cash provided by (used in) capital and related financing activities	(400,346)	48,792	(17,013)	(461,328)
Cash flows from investing activities				
Purchase of investments	(56,242)	-	-	-
Receipt of amounts from advance to other funds	3,500	-	-	-
Interest received	16,312	717	1	513
Net cash provided by (used in) investing activities	(36,430)	717	1	513
Net increase (decrease) in cash and cash equivalents	183,988	382,454	(34,852)	5,344
Cash and cash equivalents, beginning of year	3,117,835	968,491	34,944	129,915
Cash and cash equivalents, including cash at fiscal agent, end of year	3,301,823	1,350,945	92	135,259
Cash at fiscal agent, end of year	-	(2,215)	-	(93,198)
Cash and cash equivalents, end of year	\$ 3,301,823	\$ 1,348,730	\$ 92	\$ 42,061

Airport	Total	Internal Service Funds
\$ 1,356,508	\$ 8,925,662	\$ -
-	-	2,919,503
(261,680)	(2,354,259)	(2,323,321)
(1,065,314)	(5,563,177)	(226,453)
29,514	1,008,226	369,729
-	325,608	2,368
-	114,229	-
966	101,036	-
-	(3,500)	-
42,951	195,660	284,100
(10,000)	(275,800)	(99,300)
33,917	457,233	187,168
607,999	607,999	-
-	429,835	-
-	-	47,600
(640,000)	(3,835,270)	(291,520)
-	2,375,318	-
(28,208)	(268,208)	-
(3,221)	(202,999)	-
(63,430)	(893,325)	(243,920)
-	(56,242)	-
-	3,500	-
-	17,543	6,706
-	(35,199)	6,706
1	536,935	319,683
200	4,251,385	1,508,493
201	4,788,320	1,828,176
-	(95,413)	-
\$ 201	\$ 4,692,907	\$ 1,828,176

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2015

	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)	\$ 302,566	\$ 364,976	\$ (392,831)	\$ (549,258)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	506,096	184,910	229,140	658,048
Changes in assets and liabilities:				
Accounts receivable	(71,357)	(656,324)	(118,151)	233
Other assets	(1,261)	(1,154)	(1,280)	-
Inventory	50,086	-	1,570	2,440
Accounts payable	43,354	390,676	6,603	1,071
Accrued liabilities	4,074	1,061	6,601	129
Customer deposits	(802)	-	-	17,496
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 832,756</u>	<u>\$ 284,145</u>	<u>\$ (268,348)</u>	<u>\$ 130,159</u>
Noncash capital and related financing activities				
Purchase of capital assets (construction contract retainage recorded in accrued liabilities)	<u>\$ -</u>	<u>\$ (228,411)</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

\$ (265,746) \$ (540,293) \$ 134,979

301,200 1,879,394 225,902

(27,428) (873,027) (1,724)

(2,796) (6,491) 512

(33,123) 20,973 -

42,537 484,241 29,624

405 12,270 3,901

- 16,694 -

- - (21,360)

14,465 14,465 (2,105)

\$ 29,514 \$ 1,008,226 \$ 369,729

\$ - \$ (228,411) \$ -

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2015

Assets	
Cash	<u>\$ 81,119</u>
Liabilities	
Undistributed receipts	<u>\$ 81,119</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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, 2015, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$30,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

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

Inventories

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

Restricted investments

Certain resources of the City's enterprise funds have been set aside for emergencies in accordance with the City's Charter.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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, 2015.

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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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 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 balances

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 her designee. Unassigned fund balance is the residual classification for the General Fund.

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

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

The City is reporting a deficit unrestricted net position of \$139,458 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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Interfund transactions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

The budget document presents information by fund, function, activity, department, and line items. The legal level of budgetary control adopted by City Council is the activity 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. During the year ended March 31, 2015, the City incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
General government:			
Assessor	\$ 57,367	\$ 58,883	\$ 1,516
Public safety:			
Police department	734,004	750,789	16,785
Public works:			
Waste collection	45,100	46,389	1,289
Recreation and culture:			
Parks	439,115	450,977	11,862

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund (concluded):			
Recreation and culture (concluded):			
Ball fields	\$ 12,108	\$ 12,214	\$ 106
Boat launch	17,260	20,744	3,484
Community promotion	9,200	9,303	103
Transfers out	50,700	60,160	9,460

The above budgeted amounts are presented at the activity level, which is the required minimum level of control per the Michigan Uniform Budget Manual.

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of March 31, 2015:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 8,339,287	\$ 682,086	\$ 9,021,373
Cash with fiscal agent	95,413	-	95,413
Investments	2,858,193	50,000	2,908,193
Restricted investments	225,000	-	225,000
Total Statement of Net Position	\$ 11,517,893	\$ 732,086	
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			81,119
Total			\$ 12,331,098
Deposits and investments			
Bank deposits (checking and savings accounts)			\$ 9,101,484
Certificate of Deposits:			
Maturing in less than 1 year			2,133,193
Maturing in 2 to 5 years			1,000,000
Cash with fiscal agent			95,413
Petty cash			1,008
Total			\$ 12,331,098

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 \$11,013,000 of the City's bank balance of approximately \$12,794,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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, 2015:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable, net	\$ 70,410	\$ 1,998,265	\$ 5,108
Taxes receivable	97,852	-	-
Interest receivable	2,147	4,566	-
Due from other governmental units	101,541	-	-
	<u>\$ 271,950</u>	<u>\$ 2,002,831</u>	<u>\$ 5,108</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, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 16,932,797	\$ -	\$ -	\$ -	\$ 16,932,797
Capital assets being depreciated:					
Land improvements	3,222,157	13,890	-	-	3,236,047
Infrastructure	3,187,433	124,274	-	-	3,311,707
Buildings and improvements	7,425,504	-	-	-	7,425,504
Machinery and equipment	2,033,084	90,131	(5,038)	-	2,118,177
Vehicles	2,823,561	339,958	(176,168)	-	2,987,351
	<u>18,691,739</u>	<u>568,253</u>	<u>(181,206)</u>	-	<u>19,078,786</u>
Less accumulated depreciation for:					
Land improvements	(1,815,817)	(81,528)	-	-	(1,897,345)
Infrastructure	(395,080)	(133,620)	-	-	(528,700)
Buildings and improvements	(3,675,394)	(178,540)	-	-	(3,853,934)
Machinery and equipment	(1,374,533)	(96,475)	5,038	-	(1,465,970)
Vehicles	(1,959,557)	(211,238)	176,168	-	(1,994,627)
	<u>(9,220,381)</u>	<u>(701,401)</u>	<u>181,206</u>	-	<u>(9,740,576)</u>
Total capital assets being depreciated, net	<u>9,471,358</u>	<u>(133,148)</u>	-	-	<u>9,338,210</u>
Governmental activities capital assets, net	<u>\$ 26,404,155</u>	<u>\$ (133,148)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,271,007</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 1,569,534	\$ -	\$ -	\$ -	\$ 1,569,534
Construction in progress	-	2,982,451	-	-	2,982,451
	<u>1,569,534</u>	<u>2,982,451</u>	<u>-</u>	<u>-</u>	<u>4,551,985</u>
Capital assets being depreciated:					
Land improvements	18,084,598	685,737	-	-	18,770,335
Buildings and improvements	10,152,120	-	-	-	10,152,120
System improvements	25,258,990	361,926	-	-	25,620,916
Machinery and equipment	2,615,437	33,567	-	-	2,649,004
	<u>56,111,145</u>	<u>1,081,230</u>	<u>-</u>	<u>-</u>	<u>57,192,375</u>
Less accumulated depreciation for:					
Land improvements	(5,308,892)	(879,062)	-	-	(6,187,954)
Buildings and improvements	(6,112,625)	(175,667)	-	-	(6,288,292)
System improvements	(15,396,528)	(706,904)	-	-	(16,103,432)
Machinery and equipment	(1,962,443)	(121,310)	-	-	(2,083,753)
	<u>(28,780,488)</u>	<u>(1,882,943)</u>	<u>-</u>	<u>-</u>	<u>(30,663,431)</u>
Total capital assets being depreciated, net	<u>27,330,657</u>	<u>(801,713)</u>	<u>-</u>	<u>-</u>	<u>26,528,944</u>
Business-type activities					
capital assets, net	<u>\$ 28,900,191</u>	<u>\$ 2,180,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,080,929</u>

Depreciation expense for the year ended March 31, 2015 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 145,814
Public safety	72,428
Public works	168,967
Recreation and culture	91,839
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>222,353</u>
	<u>\$ 701,401</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Depreciation of business-type activities by function	
Electric utility	\$ 506,096
Sewage disposal utility	184,910
Water utility	229,140
Marina	658,048
Airport	301,200
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	3,549
	\$ 1,882,943

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated:					
Land Improvements	2,369,140	9,812	-	-	2,378,952
Buildings and improvements	3,960,317	-	-	-	3,960,317
Machinery and equipment	70,705	-	-	-	70,705
	6,400,162	9,812	-	-	6,409,974
Less accumulated depreciation for:					
Land improvements	(1,353,820)	(86,956)	-	-	(1,440,776)
Buildings and improvements	(1,988,317)	(96,315)	-	-	(2,084,632)
Machinery and equipment	(53,972)	(3,187)	-	-	(57,159)
	(3,396,109)	(186,458)	-	-	(3,582,567)
Total capital assets being depreciated, net	3,004,053	(176,646)	-	-	2,827,407
Component unit capital assets, net	\$ 3,927,124	\$ (176,646)	\$ -	\$ -	\$ 3,750,478

Depreciation expense for the component unit, included in the statement of activities, was \$186,458 for fiscal 2015.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following as of March 31, 2015:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 196,037	\$ 1,158,159	\$ 4,693
Accrued liabilities	45,761	371,169	-
Customer deposits	-	135,168	-
	<u>\$ 241,798</u>	<u>\$ 1,664,496</u>	<u>\$ 4,693</u>

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of March 31, 2015, was as follows:

Due to and from other funds

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

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

Advances to and from other funds

	Advance to Other Funds	Advance From Other Funds
Electric utility fund	\$ 853,000	\$ -
Marina fund	-	693,000
Airport fund	-	160,000
	<u>\$ 853,000</u>	<u>\$ 853,000</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

During the year ended March 31, 2009, the Electric Utility Fund advanced a total of \$700,000 to the Marina 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%. During fiscal year ended March 31, 2012, the Electric Utility Fund advanced a total of \$160,000 to the Airport 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 2015/16.

For the year ended March 31, 2015, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 9,500	\$ 60,160
Nonmajor governmental funds	167,000	221,000
Electric utility fund	13,500	226,100
Sewage disposal utility fund	85,000	36,200
Water utility fund	54,209	-
Marina fund	-	3,500
Airport fund	42,951	10,000
Internal service funds	284,100	99,300
	<u>\$ 656,260</u>	<u>\$ 656,260</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, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
Compensated absences - sick leave	\$ 113,880	\$ 9,103	\$ (58,334)	\$ 64,649	\$ 28,221
Compensated absences - vacation	157,018	131,089	(152,449)	135,658	132,898
Total governmental activities	270,898	140,192	(210,783)	200,307	161,119
Business-type activities:					
General obligation bonds	4,800,000	-	(240,000)	4,560,000	255,000
Revenue bonds	-	2,375,318	-	2,375,318	-
Installment purchase agreement	33,463	-	(16,403)	17,060	17,060
Loan	11,805	-	(11,805)	-	-
Total business-type activities	4,845,268	2,375,318	(268,208)	6,952,378	272,060
Total primary government	\$ 5,116,166	\$ 2,515,510	\$ (478,991)	\$ 7,152,685	\$ 433,179

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 fund, as 20 year serial bonds with varying amounts of principal maturing each year. The original amount of general obligation bonds was \$5,500,000.

Revenue bonds. During the current year, the City issued revenue bonds totaling \$9,900,000 to fund the improvements to the City's wastewater treatment plant. The bonds are issued for 20 years and bear interest at the rate of 2.50%. The first principal payment is due April 1, 2017. The City receives the bond proceeds as the stages of the wastewater treatment plant improvement project are completed. As of March 31, 2015 the City received bond proceeds in the amount of \$2,375,318.

Installment purchase agreement. The City's Public Act 99 installment purchase agreement is also a general obligation of the City. The original amount of the City's installment purchase agreement was \$180,800.

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

General obligation bonds, installment purchase agreements, and loans are direct obligations and pledge the full faith and credit of the City. General obligation bonds, revenue bonds, and installment purchase agreements currently outstanding are as follows:

Purpose	Matures	Interest Rates	Amount
Business-type activities			
Marina - limited tax general obligation bonds	April 2027	4.0% - 4.2%	\$ 4,560,000
Sewer - revenue bonds	April 2036	2.5%	2,375,318
Airport - installment purchase agreement	September 2015	5.6%	<u>17,060</u>
			<u><u>\$ 6,952,378</u></u>

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

Year Ending March 31,	Business-Type Activities	
	Principal	Interest
2016	\$ 272,060	\$ 211,953
2017	660,000	200,386
2018	690,000	184,174
2019	720,000	167,036
2020	755,000	148,874
2021-2025	2,855,318	450,135
2026-2027	<u>1,000,000</u>	<u>42,000</u>
	<u><u>\$ 6,952,378</u></u>	<u><u>\$ 1,404,558</u></u>

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 payable for the construction of a storage building, which approximates \$39,000 as of March 31, 2015. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2016	\$ 25,862
2017	26,861
2018	27,894
2019	28,963
2020	30,070
2021-2025	180,871
2026-2028	<u>135,767</u>
	<u>\$ 456,288</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, 2015, the City carried insurance through various commercial carriers, including the Michigan Municipal League and Michigan Township Participating Plan, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. PROPERTY TAXES

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

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2014 levy was assessed and equalized at \$238,472,219 (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 2014-15 was 9.0500 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional 1.0000 mill levied for refuse.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

13. DEFINED BENEFIT PENSION PLAN

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System ("MERS") of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America ("CWA") is 11.10% of annual covered payroll, the Police and Fire ("POLC") rate is 8.83% and the non-union rate is 13.34% of covered payroll. Communication Workers of America and Police and Fire affiliated City employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

For the year ended March 31, 2015, the City's annual pension cost of \$297,084 for MERS represents the City's required contributions. The City employees contributed \$54,170, 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 13.0% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year (2% and 3% for calendar years 2015 and 2016, respectively), 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, 2014, the date of the last actuarial valuation, was 24 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/13	\$ 281,799	100%	\$ -
3/31/14	274,075	100%	-
3/31/15	297,084	100%	-

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Funded Status and Funding Progress. As of December 31, 2014, the most recent valuation date, the Plan was 73% funded. The actuarial accrued liability for benefits was \$12,453,275 and the actuarial value of assets was \$9,067,099, resulting in an unfunded actuarial accrued liability of \$3,386,176, which means the plan is under funded. The covered payroll (annual payroll for active employees covered by the Plan) was \$2,503,586 and the ratio for the UAAL to the covered payroll was 135%.

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

14. DEFINED CONTRIBUTION PLAN

The City provided pension benefits to its City Manager through a defined contribution plan "City of Charlevoix City Manager Money Purchase Plan." In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.60% of the City Manager's gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. The City contributed \$19,103 to the Plan during the year ended March 31, 2015. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2015.

15. ENTITLEMENT COMMITMENT

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Year Ended December 31,	Campbell #3		Belle River	
	Principal	Interest	Principal	Interest
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	\$ 158,100	\$ 7,905	\$ 1,599,346	\$ 215,285

Year Ended December 31,	Combustion Turbine No. 1		Campbell Project Bank	
	Principal	Interest	Principal	Interest
2015	\$ 60,180	\$ 53,265	\$ -	\$ 28,361
2016	63,012	50,256	-	28,361
2017	66,316	47,106	193,936	28,361
2018	69,620	43,790	199,470	22,779
2019	73,160	40,309	204,213	18,181
2020-2024	424,092	142,898	640,833	25,904
2025-2027	308,924	31,399	-	-
Total	\$ 1,065,304	\$ 409,023	\$ 1,238,452	\$ 151,947

Year Ended December 31,	AFEC Project		Total	
	Principal	Interest	Principal	Interest
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	20,349	47,073	297,722	105,563
2020-2024	116,605	220,115	1,181,530	388,917
2025-2029	147,290	189,449	456,214	220,848
2030-2034	187,987	148,742	187,987	148,742
2035-2039	239,829	96,819	239,829	96,819
2040-2043	238,698	30,564	238,698	30,564
Total	\$ 1,024,241	\$ 928,676	\$ 5,085,443	\$ 1,712,836

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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 \$377,000 at March 31, 2015.

16. COMMITMENTS

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

During fiscal year 2015, the City had entered into a construction contract related to a wastewater treatment plant improvement project, amounting to approximately \$8,529,000. As of March 31, 2015, approximately \$6,245,000 remains to be completed on this construction contract.

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of March 31, 2015, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 4,551,985	\$ 923,071
Capital assets being depreciated, net	9,338,210	26,528,944	2,827,407
	<u>26,271,007</u>	<u>31,080,929</u>	<u>3,750,478</u>
Long-term liabilities:			
Due within one year	161,119	272,060	-
Due in more than one year	39,188	6,680,318	-
Advance from other funds	-	693,000	-
Less: compensated absences	(200,307)	-	-
	<u>-</u>	<u>7,645,378</u>	<u>-</u>
Net investment in capital assets	<u>\$ 26,271,007</u>	<u>\$ 23,435,551</u>	<u>\$ 3,750,478</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

18. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Perpetual care	\$ -	\$ 406,165	\$ 406,165
Prepays	2,382	-	2,382
Total nonspendable	<u>2,382</u>	<u>406,165</u>	<u>408,547</u>
Restricted:			
Drug forfeitures	2,000	-	2,000
Special revenue funds:			
Major streets	-	137,319	137,319
Local streets	-	41,442	41,442
Capital project funds:			
Infrastructure improvements	-	397,748	397,748
Street improvements	-	184,891	184,891
Total restricted	<u>2,000</u>	<u>761,400</u>	<u>763,400</u>
Assigned:			
Subsequent year expenditures	108,500	-	108,500
Capital project funds:			
Fire truck and ambulance	-	16,638	16,638
Industrial park	-	90,058	90,058
Mt. McSauba improvements	-	8,236	8,236
Total assigned	<u>108,500</u>	<u>114,932</u>	<u>223,432</u>
Unassigned	<u>1,173,671</u>	-	<u>1,173,671</u>
Total fund balances, governmental funds	<u>\$ 1,286,553</u>	<u>\$ 1,282,497</u>	<u>\$ 2,569,050</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)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	\$ 8,698,156	\$ 11,586,142	\$ 2,887,986	75%	\$ 2,406,655	120%
12/31/13	8,915,155	11,830,180	2,915,025	75%	2,631,200	111%
12/31/14	9,067,099	12,453,275	3,386,176	73%	2,503,586	135%

Schedule of Employer Contributions
MERS Defined Benefit Pension Plan

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
3/31/13	\$ 281,799	100%
3/31/14	274,075	100%
3/31/15	297,084	100%

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2015

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 101,663	\$ 30,508	\$ 16,638	\$ 90,058
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other funds	-	2,540	-	-
Due from other governmental units	39,724	12,162	-	-
Total assets	\$ 141,387	\$ 45,210	\$ 16,638	\$ 90,058
Liabilities				
Accounts payable	\$ 2,743	\$ 1,000	\$ -	\$ -
Accrued liabilities	1,325	228	-	-
Due to other funds	-	2,540	-	-
Unearned revenue	-	-	-	-
Total liabilities	4,068	3,768	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	137,319	41,442	-	-
Assigned	-	-	16,638	90,058
Total fund balances	137,319	41,442	16,638	90,058
Total liabilities and fund balances	\$ 141,387	\$ 45,210	\$ 16,638	\$ 90,058

Capital Projects Funds			Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Cemetery Care	Total
\$ 391,553	\$ 174,219	\$ 8,223	\$ 129,048	\$ 941,910
-	-	-	276,765	276,765
-	-	600	-	600
14,684	10,672	-	-	25,356
-	-	-	352	352
2,540	-	-	-	5,080
-	-	-	-	51,886
<u>\$ 408,777</u>	<u>\$ 184,891</u>	<u>\$ 8,823</u>	<u>\$ 406,165</u>	<u>\$ 1,301,949</u>
\$ 8,489	\$ -	\$ -	\$ -	\$ 12,232
-	-	-	-	1,553
2,540	-	-	-	5,080
-	-	587	-	587
<u>11,029</u>	<u>-</u>	<u>587</u>	<u>-</u>	<u>19,452</u>
-	-	-	406,165	406,165
397,748	184,891	-	-	761,400
-	-	8,236	-	114,932
<u>397,748</u>	<u>184,891</u>	<u>8,236</u>	<u>406,165</u>	<u>1,282,497</u>
<u>\$ 408,777</u>	<u>\$ 184,891</u>	<u>\$ 8,823</u>	<u>\$ 406,165</u>	<u>\$ 1,301,949</u>

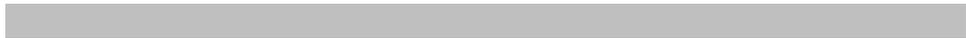
CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended March 31, 2015

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	264,694	88,704	-	-
Charges for services	-	-	-	-
Interest	39	16	38	68
Rents and royalties	-	-	-	-
Total revenues	264,733	88,720	38	68
Expenditures				
Current:				
General government	-	-	-	11,053
Public safety	-	-	138,069	-
Public works	262,701	135,428	-	-
Recreation and culture	-	-	-	-
Total expenditures	262,701	135,428	138,069	11,053
Revenues over (under) expenditures	2,032	(46,708)	(138,031)	(10,985)
Other financing sources (uses)				
Transfers in	50,000	42,000	75,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	50,000	42,000	75,000	-
Net change in fund balances	52,032	(4,708)	(63,031)	(10,985)
Fund balances, beginning of year	85,287	46,150	79,669	101,043
Fund balances, end of year	\$ 137,319	\$ 41,442	\$ 16,638	\$ 90,058



Capital Projects Funds			Permanent Fund	
Infrastructure Improvements	Street Improvement	Mt. McSauba Improvements	Cemetery Care	Total
\$ 459,621	\$ 221,917	\$ -	\$ -	\$ 681,538
-	-	-	-	353,398
-	-	-	2,875	2,875
251	35	4	1,765	2,216
-	-	7,002	-	7,002
<u>459,872</u>	<u>221,952</u>	<u>7,006</u>	<u>4,640</u>	<u>1,047,029</u>
33,496	-	-	-	44,549
-	-	-	-	138,069
-	-	-	-	398,129
-	20	-	-	20
<u>33,496</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>580,767</u>
<u>426,376</u>	<u>221,932</u>	<u>7,006</u>	<u>4,640</u>	<u>466,262</u>
-	-	-	-	167,000
(175,000)	(46,000)	-	-	(221,000)
<u>(175,000)</u>	<u>(46,000)</u>	<u>-</u>	<u>-</u>	<u>(54,000)</u>
251,376	175,932	7,006	4,640	412,262
146,372	8,959	1,230	401,525	870,235
<u>\$ 397,748</u>	<u>\$ 184,891</u>	<u>\$ 8,236</u>	<u>\$ 406,165</u>	<u>\$ 1,282,497</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2015

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets:				
Cash and cash equivalents	\$ 601,766	\$ 516,550	\$ 709,860	\$ 1,828,176
Investments	100,000	100,000	400,000	600,000
Accounts receivable	5,968	-	-	5,968
Interest receivable	304	418	999	1,721
Due from other funds	53,474	-	-	53,474
Other assets	52,956	6	-	52,962
Total current assets	814,468	616,974	1,110,859	2,542,301
Noncurrent assets:				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets being depreciated, net	-	1,151,806	54,008	1,205,814
Total noncurrent assets	-	1,172,459	117,008	1,289,467
Total assets	814,468	1,789,433	1,227,867	3,831,768
Liabilities				
Current liabilities:				
Accounts payable	20,895	94,096	-	114,991
Accrued liabilities	10,609	3,163	-	13,772
Due to other funds	45,550	-	-	45,550
Unearned revenue	3,638	-	-	3,638
Current portion of compensated absences	132,898	-	-	132,898
Total current liabilities	213,590	97,259	-	310,849
Noncurrent liabilities:				
Compensated absences, net of current portion	2,760	-	-	2,760
Total liabilities	216,350	97,259	-	313,609
Net position				
Net investment in capital assets	-	1,172,459	117,008	1,289,467
Unrestricted	598,118	519,715	1,110,859	2,228,692
Total net position	\$ 598,118	\$ 1,692,174	\$ 1,227,867	\$ 3,518,159

CITY OF CHARLEVOIX, MICHIGAN

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

Internal Service Funds

For the Year Ended March 31, 2015

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,257,217	\$ 666,115	\$ -	\$ 2,923,332
Operating expenses				
Personnel services	2,119,809	186,053	-	2,305,862
Contractual services	3,218	29,433	-	32,651
Supplies	-	101,290	-	101,290
Utilities	-	12,410	-	12,410
Repairs and maintenance	-	108,738	-	108,738
Depreciation	-	222,353	3,549	225,902
Miscellaneous	1,500	-	-	1,500
Total operating expenses	2,124,527	660,277	3,549	2,788,353
Operating income (loss)	132,690	5,838	(3,549)	134,979
Nonoperating revenues				
Interest revenue	1,056	870	3,408	5,334
Gain from sale of capital assets	-	47,600	-	47,600
Other revenue	-	2,368	-	2,368
Total nonoperating revenues	1,056	50,838	3,408	55,302
Income (loss) before transfers	133,746	56,676	(141)	190,281
Transfers				
Transfers in	-	100,000	184,100	284,100
Transfers out	-	(99,300)	-	(99,300)
Total transfers	-	700	184,100	184,800
Change in net position	133,746	57,376	183,959	375,081
Net position, beginning of year	464,372	1,634,798	1,043,908	3,143,078
Net position, end of year	\$ 598,118	\$ 1,692,174	\$ 1,227,867	\$ 3,518,159

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2015

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,253,388	\$ 666,115	\$ -	\$ 2,919,503
Cash payments to employees	(2,138,040)	(185,281)	-	(2,323,321)
Cash payments to suppliers for goods and services	(27,408)	(199,045)	-	(226,453)
Net cash provided by operating activities	87,940	281,789	-	369,729
Cash flows from noncapital financing activities				
Other receipts	-	2,368	-	2,368
Transfers in	-	100,000	184,100	284,100
Transfers out	-	(99,300)	-	(99,300)
Net cash provided by noncapital financing activities	-	3,068	184,100	187,168
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	47,600	-	47,600
Purchase of capital assets	-	(291,520)	-	(291,520)
Net cash used in capital and related financing activities	-	(243,920)	-	(243,920)
Cash flows from investing activities				
Interest received	1,240	798	4,668	6,706
Net increase in cash and cash equivalents	89,180	41,735	188,768	319,683
Cash and cash equivalents, beginning of year	512,586	474,815	521,092	1,508,493
Cash and cash equivalents, end of year	\$ 601,766	\$ 516,550	\$ 709,860	\$ 1,828,176

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2015

	Governmental Activities		Business-type	Total
	Employee Fringe Benefits	Motor Vehicle	Activities DPW Site	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 132,690	\$ 5,838	\$ (3,549)	\$ 134,979
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	222,353	3,549	225,902
Changes in assets and liabilities:				
Accounts receivable	(1,724)	-	-	(1,724)
Other assets	163	349	-	512
Accounts payable	(22,853)	52,477	-	29,624
Accrued liabilities	3,129	772	-	3,901
Unearned revenue	(2,105)	-	-	(2,105)
Accrued compensated absences	(21,360)	-	-	(21,360)
Net cash provided by operating activities	<u>\$ 87,940</u>	<u>\$ 281,789</u>	<u>\$ -</u>	<u>\$ 369,729</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position
 Downtown Development Authority Component Unit
 March 31, 2015

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 682,086	\$ -	\$ 682,086
Investments	50,000	-	50,000
Receivables	5,108	-	5,108
Other assets	304	-	304
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	2,827,407	2,827,407
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 737,498</u>	<u>3,750,478</u>	<u>4,487,976</u>
Liabilities			
Accounts payable	\$ 3,894	799	4,693
Accrued liabilities	799	(799)	-
Unearned revenue	500	-	500
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>5,193</u>	<u>-</u>	<u>5,193</u>
Fund balance			
Restricted	732,305	(732,305)	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 737,498</u>		
Net position			
Net investment in capital assets		3,750,478	3,750,478
Restricted		732,305	732,305
		<u> </u>	<u> </u>
Total net position		<u>\$ 4,482,783</u>	<u>\$ 4,482,783</u>

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, 2015

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 416,811	\$ -	\$ 416,811
Rents	77,235	-	77,235
Miscellaneous	48,157	-	48,157
	<hr/>	<hr/>	<hr/>
Total revenues	542,203	-	542,203
Expenditures / expenses			
Current:			
Other functions	504,734	176,646	681,380
	<hr/>	<hr/>	<hr/>
Change in fund balance / net position	37,469	(176,646)	(139,177)
Fund balance / net position, beginning of year	694,836	3,927,124	4,621,960
	<hr/>	<hr/>	<hr/>
Fund balance / net position, end of year	\$ 732,305	\$ 3,750,478	\$ 4,482,783
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SINGLE AUDIT ACT COMPLIANCE

Independent Auditors' Report on the
Schedule of Expenditures of Federal Awards
Required By OMB Circular A-133

September 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 29, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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CITY OF CHARLEVOIX, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development Community Development Block Grant Water Freeze	14.238	MSHDA	MSC 214027-UN	\$ 114,229
U.S. Environmental Protection Agency Clean Water State Revolving Fund	66.458	MDEQ	5572-01	<u>1,009,785</u>
Total Expenditures of Federal Awards				<u>\$ 1,124,014</u>

See notes to schedule of expenditures of federal awards.

CITY OF CHARLEVOIX, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of Charlevoix, Michigan (the “City”) under programs of the federal government for the year ended March 31, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

The City’s reporting entity is defined in Note 1 of the City’s Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City’s financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDEQ	Michigan Department of Environmental Quality
MSHDA	Michigan State Housing Development Authority

4. FEDERAL AWARD EXPENDITURE RECONCILIATION

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statement is as follows:

Federal revenue as reported in the financial statements:	
Proprietary funds	
Federal revenues	\$ 722,228
Bond proceeds	2,375,318
Bond proceeds - non-federal sources	(1,365,533)
Amounts expended directly by the Michigan Department of Transportation for the benefit of the City of Charlevoix Airport (see Note 5)	<u>(607,999)</u>
Federal expenditures as reported in the Schedule	<u><u>\$ 1,124,014</u></u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

5. AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all federal and state grants pertaining to their city. During the calendar year ended March 31, 2015, the Federal aid received and expended by the Airport was \$607,999 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

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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 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2015, 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 29, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-002 to be a significant deficiency.

Compliance and Other Matters

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

City of Charlevoix's Response to Findings

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

Purpose of this Report

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

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

**Independent Auditors' Report on Compliance for the Major Federal Program
and on Internal Control over Compliance Required by OMB Circular A-133**

September 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *City of Charlevoix, Michigan* (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended March 31, 2015. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rehmann Lobson LLC

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

X yes no

Significant deficiency(ies) identified?

X yes none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes X no

Significant deficiency(ies) identified?

 yes X none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

 yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

66.458

Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 yes X no

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001 - Material Audit Adjustments (Repeated from Prior Year)

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-002 - Preparation of Financial Statements in Accordance with GAAP (Repeated from Prior Year)

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2015

Finding 2014-001 - Material Audit Adjustments

The audit identified the need for substantial adjustments to the City's accounting records, which impacted a variety of funds and financial statement areas that collectively had a material effect on the City's financial statements. This matter was repeated as finding 2015-001.

Finding 2014-002 - Preparation of Financial Statements in Accordance with GAAP

The City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare general purpose external financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls. This matter was repeated as finding 2015-002.

