

CITY OF CHARLEVOIX

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
March 31, 2009**

CITY OF CHARLEVOIX

TABLE OF CONTENTS

	<u>PAGE</u>
List of Elected and Appointed Officials	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15-16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17-18
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds	19-20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
General Fund	21-23
Major Streets Fund	24
Local Streets Fund	25
Airport Fund	26
Statement of Net Assets – Proprietary Funds	27-28
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	29-30
Statement of Cash Flows – Proprietary Funds	31-32
Statement of Fiduciary Assets and Liabilities – Agency Fund – Current Tax Collection Fund	33
Notes to the Financial Statements	34-56
Supplementary Information	
Combining and Individual Fund Financial Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	57
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	58

CITY OF CHARLEVOIX

TABLE OF CONTENTS

	<u>PAGE</u>
Supplementary Information (Concluded)	
Combining Statement of Net Assets – Internal Service Funds	59
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Internal Service Funds	60
Combining Statement of Cash Flows – Internal Service Funds	61
Statement of Changes in Assets and Liabilities – Agency Fund – Current Tax Collection Fund	62
Balance Sheet and Statement of Net Assets – Component Unit	63
Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities – Component Unit	64
Internal Control and Compliance	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65-68

CITY OF CHARLEVOIX

List of Elected and Appointed Officials For the Fiscal Year Ended March 31, 2009

Elected Officials

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

Appointed Officials

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

INDEPENDENT AUDITORS' REPORT

September 30, 2009

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix* (the "City"), as of and for the year ended March 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **City of Charlevoix** (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2009.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$59,069,166 (*net assets*). Of this amount, \$7,288,590 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$1,384,795.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,898,442, a decrease of \$89,504 in comparison with the prior year. Approximately 78 percent of this total amount or \$1,489,259 is *available for spending* at the City's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$756,568 or 24 percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Airport, and City Hall Improvements funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-26 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 27-32 of this report.

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

The basic fiduciary fund financial statement can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-56 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 57-64 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlevoix, assets exceeded liabilities by \$59,069,166 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (86.7 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (1.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (12.3 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets						
Cash and other assets	\$ 2,297,321	\$ 2,828,961	\$ 6,966,375	\$ 9,789,418	\$ 9,263,696	\$12,618,379
Capital assets, net of accumulated depreciation	<u>30,799,493</u>	<u>29,959,276</u>	<u>26,048,743</u>	<u>22,312,140</u>	<u>56,848,236</u>	<u>52,271,416</u>
Total assets	<u>33,096,814</u>	<u>32,788,237</u>	<u>33,015,118</u>	<u>32,101,558</u>	<u>66,111,932</u>	<u>64,889,795</u>
Liabilities						
Current and other liabilities	276,839	284,283	809,945	913,058	1,086,784	1,197,341
Long-term liabilities	<u>470,982</u>	<u>456,990</u>	<u>5,485,000</u>	<u>5,500,000</u>	<u>5,955,982</u>	<u>5,956,990</u>
Total liabilities	<u>747,821</u>	<u>741,273</u>	<u>6,294,945</u>	<u>6,413,058</u>	<u>7,042,766</u>	<u>7,154,331</u>
Net assets						
Invested in capital assets, net of related debt	30,632,245	29,770,898	20,563,743	16,812,140	51,195,988	46,583,038
Restricted	359,588	345,960	225,000	-	584,588	345,960
Unrestricted	<u>1,357,160</u>	<u>1,930,106</u>	<u>5,931,430</u>	<u>8,876,360</u>	<u>7,288,590</u>	<u>10,806,466</u>
Total net assets	<u>\$ 32,348,993</u>	<u>\$ 32,046,964</u>	<u>\$ 26,720,173</u>	<u>\$ 25,688,500</u>	<u>\$ 59,069,166</u>	<u>\$ 57,735,464</u>

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

The City's net assets increased by \$1,384,795 during the current fiscal year.

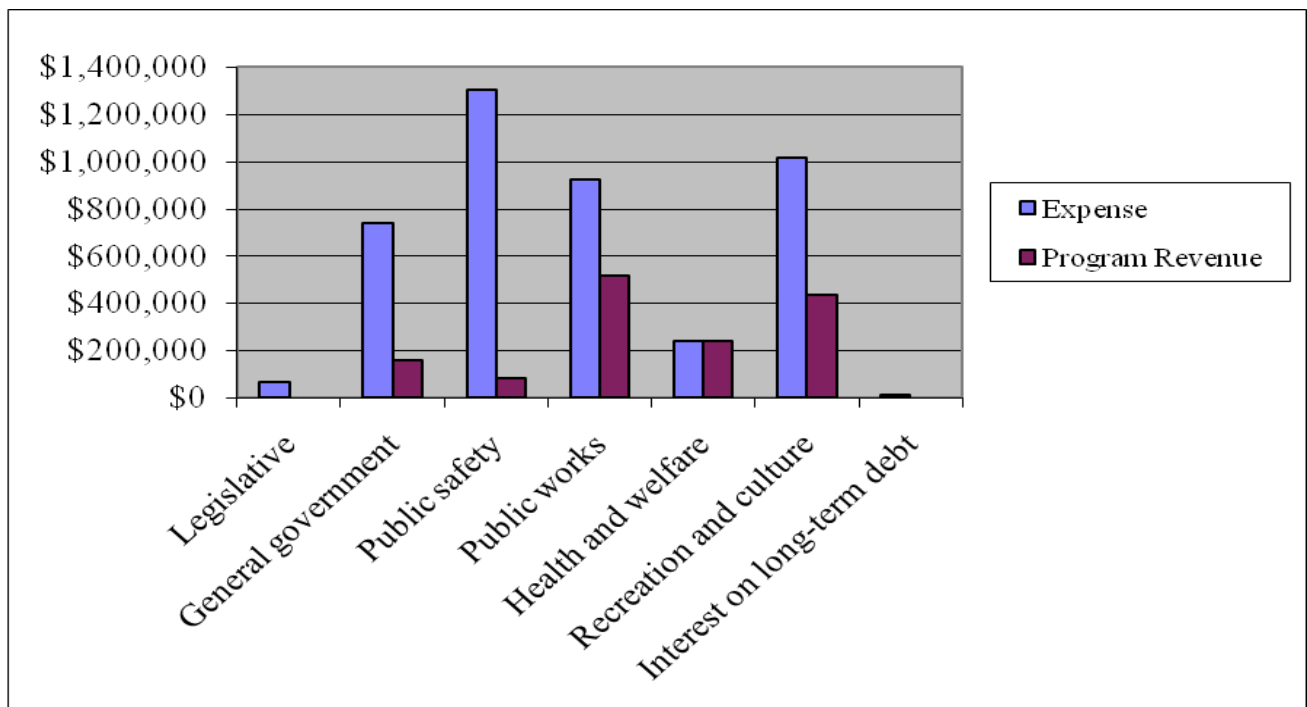
**City of Charlevoix - Primary Government
Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues						
Program revenues						
Charges for services	\$ 1,007,010	\$ 854,943	\$ 7,794,763	\$ 7,869,500	\$ 8,801,773	\$ 8,724,443
Operating grants and contributions	420,378	401,872	117,382	2,878	537,760	404,750
Capital grants and Contributions	421,845	884,278	929,249	3,417,989	1,351,094	4,302,267
General revenues						
Property taxes	2,720,833	2,617,824	-	-	2,720,833	2,617,824
Grants and contributions not restricted to specific programs	272,417	287,598	-	-	272,417	287,598
Unrestricted investment earnings	49,668	257,446	-	363,373	49,668	620,819
Gain on sale of capital assets	7,836	-	8,300	1,200	16,136	1,200
Total revenues	<u>4,899,987</u>	<u>5,303,961</u>	<u>8,849,694</u>	<u>11,654,940</u>	<u>13,749,681</u>	<u>16,958,901</u>
Expenses						
Legislative	66,083	43,462	-	-	66,083	43,462
General government	737,841	708,509	-	-	737,841	708,509
Public safety	1,130,171	1,054,925	-	-	1,130,171	1,054,925
Public works	1,094,348	923,396	-	-	1,094,348	923,396
Health and welfare	237,730	266,807	-	-	237,730	266,807
Recreation and culture	1,014,171	910,872	-	-	1,014,171	910,872
Interest on long-term debt	12,031	34,665	-	-	12,031	34,665
Electric	-	-	5,089,601	5,284,343	5,089,601	5,284,343
Sewage disposal	-	-	1,165,325	1,004,765	1,165,325	1,004,765
Water	-	-	952,953	896,596	952,953	896,596
Marina	-	-	864,632	612,343	864,632	612,343
Total expenses	<u>4,292,375</u>	<u>3,942,636</u>	<u>8,072,511</u>	<u>7,798,047</u>	<u>12,364,886</u>	<u>11,740,683</u>
Increase in net assets before transfers	607,612	1,361,325	777,183	3,856,893	1,384,795	5,218,218
Transfers	(254,490)	(77,463)	254,490	77,463	-	-
Change in net assets	353,122	1,283,862	1,031,673	3,934,356	1,384,795	5,218,218
Net assets – beginning of year	32,046,964	30,789,548	25,688,500	21,754,144	57,735,464	52,543,692
Prior period adjustment	(51,093)	(26,446)	-	-	(51,093)	(26,446)
Net assets – end of year	<u>\$32,348,993</u>	<u>\$32,046,964</u>	<u>\$26,720,173</u>	<u>\$25,688,500</u>	<u>\$59,069,166</u>	<u>\$57,735,464</u>

Governmental activities. Governmental activities increased the City’s net assets by \$353,122. Key elements of this increase are as follows:

- Property tax revenue increased by \$103,009 (3.93%) which was related to increased taxable values in the City.
- Capital grants and contributions decreased approximately \$462,400 resulting from decreased Federal revenues received by the airport.
- Federal (“FAA”) and State of Michigan grants provided approximately \$433,000 for improvements at the airport.
- The City Hall Improvements Capital Projects Fund received transfers of \$10,000 from the General Fund, \$60,000 from the Infrastructure Improvements Capital Projects fund, \$44,500 from the Electric, Water & Sewer Utility proprietary funds and \$141,900 from the DPW and Motor Vehicle funds, reducing the total outstanding advances to the fund.
- Interest rates decreased due to the market volatility and unrestricted investment earnings decreased by approximately \$207,800 for the year due to falling interest rates during most of the year and reduced available funds that could be invested.

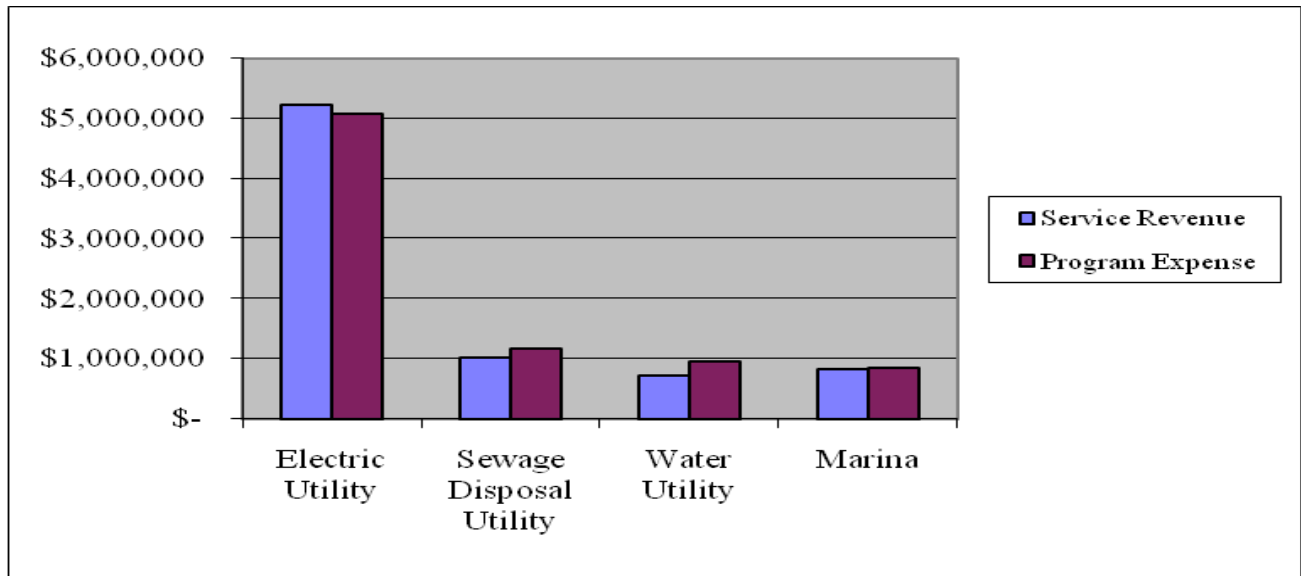
Expenses and Program Revenues – Governmental Activities



Business-type activities. Business-type activities increased the City’s net assets by \$1,031,673. Key elements of this change are as follows:

- The Sewer Fund had capital improvements to the digester unit of over \$240,000.
- Capital grants and contributions of more than \$900,000 were related to final costs of the reconstruction of the Marina and park area.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$1,898,442, a decrease of \$89,504 in comparison with the prior year. A significant portion of the fund balances, \$1,489,259, constitutes *unreserved fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for Perpetual Care.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$757,163. As a measure of the General Fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents 24 percent of total General Fund expenditures and transfers out.

The fund balance of the City's General Fund increased by \$152,085 during the current fiscal year, compared to a budgeted increase of \$54,711. Many factors contributed to this change during the year, but the main reasons for the increase were lower costs in the City Hall as well as lower cost in Grounds Leaf & Brush pickup and Ambulance than estimated prior to the year-end in the budgeting process.

The Major Streets Fund had a total fund balance of \$75,390. The Major Streets Fund's fund balance decreased by \$12,214, compared to a budgeted increase of \$10,066, due in most part to higher than estimated cost to fund for winter maintenance.

The Local Streets Fund had a total fund balance of \$17,157. The Local Streets Fund's fund balance increased by \$2,656, compared to a budgeted increase of \$20,048, due in most part to additional winter maintenance costs on local streets.

The Airport Fund had a total fund balance of \$19,032. The Airport Fund's fund balance decreased by \$1,893, compared to a budgeted decrease of \$17,169, due in most part to higher Federal revenues and expenditures for more grant projects during the year than expected and lower than expected parking fees for the year.

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

Unrestricted net assets of the Electric Utility, Sewage Disposal Utility, Water Utility and Marina Funds at the end of the year amounted to \$7,028,104 and the investment in capital assets net of related debt was \$19,219,276. The Electric Utility Fund had an increase in net assets for the year of \$145,945, the Sewage Disposal Utility Fund an increase of \$37,326, the Water Utility Fund a decrease of \$31,062, whereas the Marina Fund had an increase of \$903,362. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, General Fund revenues and expenditures were higher than budgetary estimates. There was an increase in fund balance of \$152,085 compared to a budgeted increase of \$54,711. This was a result of lower than expected expenditures in the general fund due to more than expected snow fall late in the season. Employees whose wages would have been charged to the general fund was charged partly to major and local streets due to snow removal services performed.

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, 2009, amounted to \$56,848,236 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings and systems, equipment, vehicles and infrastructure including park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 8.8 percent.

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

- Completion of the Marina, East Park, Ferry Boat Launch and Trout Stream improvements
- Chicago Club area infrastructure improvements
- Equipment purchases at the City airport and update of the airport master plan
- Purchase of new vehicles, machinery and equipment by the Motor Pool fund and a fire tanker purchase by the Fire Public Improvement Fund.
- Utility system improvements and equipment purchases.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 17,892,862	\$ 17,892,862	\$ 609,468	\$ 609,468	\$ 18,502,330	\$ 18,502,330
Construction-in-progress	19,095	-	32,040	4,355,254	51,135	4,355,254
Land improvements	3,714,002	3,704,352	12,956,856	4,908,077	16,670,858	8,612,429
Infrastructure	1,017,730	559,637	-	-	1,017,730	559,637
Buildings and systems	6,050,369	6,312,709	11,978,746	12,031,652	18,029,115	18,344,361
Equipment	1,051,770	878,880	471,633	407,689	1,523,403	1,286,569
Vehicles	<u>1,053,665</u>	<u>610,836</u>	<u>-</u>	<u>-</u>	<u>1,053,665</u>	<u>610,836</u>
Total	<u>\$ 30,799,493</u>	<u>\$ 29,959,276</u>	<u>\$ 26,048,743</u>	<u>\$ 22,312,140</u>	<u>\$ 56,848,236</u>	<u>\$ 52,271,416</u>

Additional information on the City's capital assets can be found in Note III C on pages 44-47 of this report.

Long-term debt. At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of \$167,248. This amount comprises debt backed by the full faith and credit of the City. In 2006-07, a new bond was issued for construction of a marina. This bond has a balance of \$5,485,000 which is not included in the above balance. The City has also pledged its full faith and credit to the Downtown Development Authority Component Unit bonded and installment purchase debt agreements of \$1,335,000 and \$343,043, respectively.

**City of Charlevoix
Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Installment purchase agreement	102,750	-	343,043
MDOT loan	64,498	-	-
Marina limited tax general obligation bonds	-	5,485,000	-
General obligation refunding bond	-	-	<u>1,335,000</u>
Total	<u>\$ 167,248</u>	<u>\$ 5,485,000</u>	<u>\$ 1,678,043</u>

The City's and Component Unit's total debt decreased by \$360,335.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$23,358,800, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III F on pages 49-51 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2009-10 fiscal year:

- The unemployment rate for the Northwest Michigan region is currently 13.1%, an increase from 7.2% a year ago. This compares to the state's current average unemployment rate of 15 % and the national average rate of 9.4%.
- The Michigan economy has significant problems and the State has a reduced credit rating. However, the City's credit rating was improved during the year by Standard & Poor's from A+ to AA. There have been reductions in revenues from sales tax and this trend is expected to continue for at least the next year. Problems with foreclosures and reduction in taxable values were considered in preparing the budget and are reflected in utility bad debt estimates and write offs, as well as in the calculations for tax revenue.
- The tax collection rate for the year remained at 97% of billed taxes. This rate has remained virtually unchanged for the last 5 years. The County tax revolving fund reimburses the City for delinquent real property taxes in May each year following the March settlement.

- An increase of 3.2% in health care costs in the 2009-10 budget were factored in to the Employee Fringe Benefit (“EFB”) rate applied to all funds to maintain a break-even in the EFB. The latest proposal increase effective October 1, 2009, is .1% from Priority Health for health care. The City’s share could increase by approximately 3% due to an increase in caps and differences in labor agreements and an additional option (Healthcare Savings Account coupled with a high deductible plan) is being offered in the benefit package being prepared by the healthcare committee. Considerable savings in premium costs can be recognized for employees switching to the high deductible plan.
- The budget includes an additional \$24,000 contribution beyond what the city is required to make to the MERS Retirement System to improve the funding level for employees covered by the plan. We have received the funding rates for next year (2010-11) and they will increase significantly, but our additional contributions over the past two years will significantly reduce our liability to the retirement fund in future years.
- A revenue increase for State Revenue Sharing or Act 51 monies is not factored into the budget. The operating millage of 9.05 mills remained the same as was adopted in the 2008-09 budget to enable the same level of service to taxpayers be provided by the General Fund. The infrastructure millage was again levied for 2.1028 mills and was not subject to the Headlee Rollback. The proposed tax rates are unchanged and cost reduction is the only way to maintain current service levels. Some levels have been cut and the adopted budget included increased revenues of \$12,800 due to rate increases and reductions in spending of \$187,600 to balance the budget. Additional Revenue Sharing cuts are expected as the State faces a large budget deficit for their 2009-10 budget.
- Sewer rates increased 6%, in line with a cost of service study to offset projected losses in the business type fund.
- Water rates increased 4% as suggested by the cost of service study to offset losses and to fund future capital improvements planned in the fund.
- Electric rates increased 3% to stay in line with inflation and cover the cost of future fund improvements. As required by PA 295, the City plan for Renewable Energy and Energy Optimization was approved by the Michigan Public Service Commission and this requires the current Energy Optimization Charge for the average residential customers at \$.58/month. No additional fee was set for Renewable Energy.
- Rates were also increased for the golf course, downtown parking fines and airport parking fees to offset additional costs of operation in these areas

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX
STATEMENT OF NET ASSETS

MARCH 31, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 992,085	\$ 3,192,089	\$ 4,184,174	\$ 167,196
Cash with fiscal agent	-	111,698	111,698	119,116
Investments	1,422,803	2,028,131	3,450,934	59,231
Receivables	151,001	1,027,472	1,178,473	2,339
Internal balances	(301,249)	301,249	-	-
Other assets	32,681	305,736	338,417	22,393
Capital assets not being depreciated	17,911,957	641,508	18,553,465	923,071
Capital assets, net of depreciaton	12,887,536	25,407,235	38,294,771	3,864,133
Total assets	33,096,814	33,015,118	66,111,932	5,157,479
Liabilities				
Accounts payable	160,791	760,613	921,404	563
Accrued liabilities	116,048	49,332	165,380	14,690
Noncurrent liabilities				
Long-term debt due within one year	32,818	35,000	67,818	364,347
Long-term debt due in more than one year	438,164	5,450,000	5,888,164	1,313,696
Total liabilities	747,821	6,294,945	7,042,766	1,693,296
Net assets				
Invested in capital assets, net of related debt	30,632,245	20,563,743	51,195,988	3,109,161
Restricted for				
Nonexpendable perpetual care	359,588	-	359,588	-
Replacement and redemption	-	225,000	225,000	-
Debt service	-	-	-	355,022
Unrestricted	1,357,160	5,931,430	7,288,590	-
Total net assets	\$ 32,348,993	\$ 26,720,173	\$ 59,069,166	\$ 3,464,183

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

CITY OF CHARLEVOIX

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2009

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
Primary government				
Governmental activities				
Legislative	\$ 66,083	\$ -	\$ -	\$ (66,083)
General government	737,841	157,140	-	(577,501)
Public safety	1,130,171	74,863	-	(1,046,994)
Public works	1,094,348	190,660	421,845	(161,180)
Health and welfare	237,730	240,348	-	2,618
Recreation and culture	1,014,171	343,999	-	(581,971)
Interest on long-term debt	12,031	-	-	(12,031)
Total governmental activities	<u>4,292,375</u>	<u>1,007,010</u>	<u>421,845</u>	<u>(2,443,142)</u>
Business-type activities				
Electric	5,089,601	5,235,047	-	241,384
Sewage disposal	1,165,325	998,371	-	(163,035)
Water	952,953	733,043	-	(210,378)
Marina	864,632	828,302	929,249	900,912
Total business-type activities	<u>8,072,511</u>	<u>7,794,763</u>	<u>929,249</u>	<u>768,883</u>
Total primary government	<u>\$ 12,364,886</u>	<u>\$ 8,801,773</u>	<u>\$ 1,351,094</u>	<u>\$ (1,674,259)</u>
Component unit				
Downtown Development Authority	<u>\$ 826,595</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ (798,829)</u>

Continued...

CITY OF CHARLEVOIX

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (2,443,142)	\$ 768,883	\$ (1,674,259)	\$ (798,829)
General revenues				
Property taxes	2,720,833	-	2,720,833	775,698
Grants and contributions not restricted to specific programs	272,417	-	272,417	-
Unrestricted investment earnings	49,668	-	49,668	-
Gain on sale of capital assets	7,836	8,300	16,136	-
Transfers - internal activities	(254,490)	254,490	-	-
Total general revenues and transfers	2,796,264	262,790	3,059,054	775,698
Changes in net assets	353,122	1,031,673	1,384,795	(23,131)
Net assets, beginning of year, as previously reported	32,046,964	25,688,500	57,735,464	3,501,209
Prior period adjustments	(51,093)	-	(51,093)	(13,895)
Net assets, beginning of year, as restated	31,995,871	25,688,500	57,684,371	3,487,314
Net assets, end of year	<u>\$ 32,348,993</u>	<u>\$ 26,720,173</u>	<u>\$ 59,069,166</u>	<u>\$ 3,464,183</u>

Concluded

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

FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2009

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Airport</u>	<u>City Hall Improvements</u>
ASSETS					
Cash and cash equivalents	\$ 369,869	\$ 27,188	\$ 8,285	\$ 31,099	\$ 3,196
Investments	425,916	160	1,044	-	-
Accounts receivable	12,634	-	-	7,523	-
Interest receivable	2,635	-	-	-	-
Other assets	595	-	-	-	-
Due from other governments	48,313	60,154	11,584	-	-
Total assets	<u>\$ 859,962</u>	<u>\$ 87,502</u>	<u>\$ 20,913</u>	<u>\$ 38,622</u>	<u>\$ 3,196</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 56,212	\$ 7,323	\$ 1,587	\$ 18,014	\$ -
Accrued expenses	46,587	4,789	2,169	1,576	-
Advance from other funds	-	-	-	-	56,650
Total liabilities	<u>102,799</u>	<u>12,112</u>	<u>3,756</u>	<u>19,590</u>	<u>56,650</u>
Fund balances (deficits)					
Reserved for:					
Perpetual care	-	-	-	-	-
Prepaid expenses	595				
Unreserved					
Designated for subsequent year's expenditures	-	17,000	-	-	-
Undesignated (deficit)	756,568	58,390	17,157	19,032	(53,454)
Undesignated - reported in nonmajor Capital Projects Funds	-	-	-	-	-
Total fund balances (deficits)	<u>757,163</u>	<u>75,390</u>	<u>17,157</u>	<u>19,032</u>	<u>(53,454)</u>
Total liabilities and fund balances	<u>\$ 859,962</u>	<u>\$ 87,502</u>	<u>\$ 20,913</u>	<u>\$ 38,622</u>	<u>\$ 3,196</u>

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 376,928	\$ 816,565
715,470	1,142,590
1,332	21,489
5,112	7,747
-	595
-	120,051
\$ 1,098,842	\$ 2,109,037

\$ 15,688	\$ 98,824
-	55,121
-	56,650
15,688	210,595

359,588	359,588
	595
32,000	49,000
-	797,693
691,566	691,566
1,083,154	1,898,442
\$ 1,098,842	\$ 2,109,037

Continued...

CITY OF CHARLEVOIX

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2009

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

Fund balances - total governmental funds	\$ 1,898,442
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	
Add - capital assets (net)	29,709,969
Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in internal service funds	1,167,801
Deduct - net assets allocated to business-type activities from governmental-type activity internal service funds	(106,099)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Deduct - installment contracts and loans	(167,248)
Deduct - compensated absences - sick leave	(115,092)
Deduct - accrued interest on bonds and advances	(38,780)
Net assets of governmental activities	<u>\$ 32,348,993</u>
	Concluded

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

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	General	Major Streets	Local Streets	Airport	City Hall Improvements
Revenues					
Taxes	\$ 2,255,639	\$ -	\$ -	\$ -	\$ -
Federal revenue	-	-	-	421,845	-
State revenue	269,032	244,390	71,304	11,101	-
Licenses and permits	1,615	-	-	-	-
Charges for services	657,231	-	-	130,602	-
Fines and forfeits	19,441	-	-	-	-
Interest	13,036	512	416	397	169
Rents and royalties	113,757	-	-	57,126	-
Proceeds from sale of capital assets	-	-	-	1,840	-
Other revenue	16,470	-	-	-	-
Total revenues	3,346,221	244,902	71,720	622,911	169
Expenditures					
Current					
Legislative	65,993	-	-	-	-
General government	530,310	-	-	-	-
Public safety	1,044,354	-	-	-	-
Public works	176,627	573,452	144,329	624,374	-
Health and welfare	234,730	-	-	-	-
Recreation and culture	948,043	-	-	-	-
Other expenditures	64,579	-	-	-	-
Debt service					
Principal	-	-	-	21,109	-
Interest	-	-	-	9,321	13,500
Total expenditures	3,064,636	573,452	144,329	654,804	13,500
Revenues over (under) expenditures	281,585	(328,550)	(72,609)	(31,893)	(13,331)
Other financing sources (uses)					
Transfers in	-	316,336	75,265	30,000	256,400
Transfers out	(129,500)	-	-	-	-
Total other financing sources (uses)	(129,500)	316,336	75,265	30,000	256,400
Net change in fund balances	152,085	(12,214)	2,656	(1,893)	243,069
Fund balances (deficits), beginning of year	605,078	87,604	14,501	20,925	(296,523)
Fund balances (deficits), end of year	\$ 757,163	\$ 75,390	\$ 17,157	\$ 19,032	\$ (53,454)

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 465,194	\$ 2,720,833
-	421,845
-	595,827
-	1,615
5,875	793,708
-	19,441
26,595	41,125
13,960	184,843
-	1,840
87,901	104,371
599,525	4,885,448
-	65,993
56,480	586,790
173,561	1,217,915
-	1,518,782
-	234,730
-	948,043
-	64,579
-	21,109
-	22,821
230,041	4,680,762
369,484	204,686
57,454	735,455
(900,145)	(1,029,645)
(842,691)	(294,190)
(473,207)	(89,504)
1,556,361	1,987,946
\$ 1,083,154	\$ 1,898,442

Continued...

CITY OF CHARLEVOIX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2009

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

Net change in fund balances - total governmental funds	\$ (89,504)
<p>Amounts reported for governmental activities in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	991,357
Deduct - depreciation expense	(596,682)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Add - principal payments on long-term liabilities	21,109
<p>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.</p>	
Add - change in net assets from governmental activities accounted for in internal service funds	33,224
<p>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.</p>	
Deduct - increase in compensated absences - sick leave	(17,731)
Add - decrease in accrued interest on bonds payable and advances	11,349
Change in net assets of governmental activities	\$ 353,122

Concluded

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

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Taxes				
Property taxes	\$ 2,198,800	\$ 2,206,890	\$ 2,214,442	\$ 7,552
Payments in lieu of taxes	3,400	3,400	1,011	(2,389)
Interest and penalties on delinquent taxes	8,000	16,300	24,080	7,780
Tax collection fees	16,300	15,600	16,106	506
Total taxes	2,226,500	2,242,190	2,255,639	13,449
State revenue	272,800	275,018	269,032	(5,986)
Licenses and permits	6,000	2,200	1,615	(585)
Charges for services				
Fire runs	73,300	74,863	74,863	-
Ambulance runs	149,800	149,800	227,688	77,888
Ambulance contracts	42,900	42,307	12,660	(29,647)
Charges for services - other	6,400	3,709	4,306	597
Cemetery	45,000	31,000	30,941	(59)
Golf course	181,200	162,865	162,342	(523)
Summer sports	9,700	9,012	9,012	-
Day camp	45,500	46,650	47,399	749
Winter sports	55,000	70,000	62,281	(7,719)
Basketball	4,000	3,100	3,733	633
Skate park	6,600	6,463	5,700	(763)
Parking	18,500	16,306	16,306	-
Total charges for services	637,900	616,075	657,231	41,156
Fines and forfeits	23,200	20,900	19,441	(1,459)
Interest and dividends	16,000	16,000	13,036	(2,964)
Rents and royalties				
City hall	89,300	89,300	90,500	1,200
Boat launch	24,600	23,116	23,257	141
Total rents and royalties	113,900	112,416	113,757	1,341
Other revenues	3,400	8,940	16,470	7,530
Total revenues	3,299,700	3,293,739	3,346,221	52,482

Continued...

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Legislative				
City council	\$ 63,500	\$ 56,923	\$ 65,993	\$ 9,070
General government				
Mayor	13,200	11,900	8,008	(3,892)
City manager	79,900	51,689	65,958	14,269
Elections	17,200	18,185	20,769	2,584
Assessor	69,600	66,245	65,508	(737)
City attorney	82,700	66,900	67,486	586
City clerk	37,000	36,941	33,680	(3,261)
City treasurer	60,700	59,296	54,920	(4,376)
City hall and grounds	107,700	129,824	115,462	(14,362)
Cemetery	103,600	102,737	98,519	(4,218)
Total general government	571,600	543,717	530,310	(13,407)
Public safety				
Police department	701,400	634,267	670,753	36,486
Parking law enforcement	17,800	15,481	17,453	1,972
Fire department	339,800	328,723	302,865	(25,858)
Planning department	134,300	61,119	53,283	(7,836)
Total public safety	1,193,300	1,039,590	1,044,354	4,764
Public works				
Highways and streets	30,000	29,100	25,947	(3,153)
Leaf pick up	106,400	107,400	69,923	(37,477)
Waste collection	57,900	44,000	39,936	(4,064)
Brush pickup	54,300	55,700	40,821	(14,879)
Total public works	248,600	236,200	176,627	(59,573)

Continued...

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	Budgeted Amounts		Actual	Actual (Under) Over Final Budget
	Original	Final		
Health and welfare				
Ambulance	\$ 245,400	\$ 246,882	\$ 234,730	\$ (12,152)
Recreation and culture				
Parks	285,900	305,093	308,157	3,064
Recreation administration	42,800	40,406	41,461	1,055
City beaches	56,900	49,073	51,348	2,275
Ball fields	46,500	46,767	49,954	3,187
Day camp	43,800	40,436	40,695	259
Ice rink	9,700	10,687	6,331	(4,356)
Mt. McSauba ski hill	152,600	140,233	168,252	28,019
Basketball and volleyball	8,000	6,000	3,658	(2,342)
Golf course	253,100	234,902	237,729	2,827
Boat launch	16,100	12,838	12,912	74
Skate park	13,500	9,716	10,243	527
Community promotion	18,400	17,596	17,303	(293)
Total recreation and culture	947,300	913,746	948,043	34,297
Other expenditures	105,600	72,470	64,579	(7,891)
Total expenditures	3,375,300	3,109,528	3,064,636	(44,892)
Revenues (under) over expenditures	(75,600)	184,211	281,585	97,374
Other financing sources (uses)				
Transfers in	13,000	-	-	-
Transfers out	(85,000)	(129,500)	(129,500)	-
Total other financing sources (uses)	(72,000)	(129,500)	(129,500)	-
Net change in fund balance	(147,600)	54,711	152,085	97,374
Fund balance, beginning of year	605,078	605,078	605,078	-
Fund balance, end of year	\$ 457,478	\$ 659,789	\$ 757,163	\$ 97,374

Concluded

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

CITY OF CHARLEVOIX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED MARCH 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
State revenue	\$ 223,800	\$ 225,200	\$ 244,390	\$ 19,190
Interest	600	1,000	512	(488)
Total revenues	224,400	226,200	244,902	18,702
Expenditures				
Public works - Highways and streets	544,700	538,934	573,452	34,518
Revenues under expenditures	(320,300)	(312,734)	(328,550)	(15,816)
Other financing sources				
Transfers in	327,300	322,800	316,336	(6,464)
Net change in fund balance	7,000	10,066	(12,214)	(22,280)
Fund balance, beginning of year	87,604	87,604	87,604	-
Fund balance, end of year	\$ 94,604	\$ 97,670	\$ 75,390	\$ (22,280)

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

CITY OF CHARLEVOIX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED MARCH 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
State revenue	\$ 68,300	\$ 67,837	\$ 71,304	\$ 3,467
Interest	800	1,400	416	(984)
Total revenues	69,100	69,237	71,720	2,483
Expenditures				
Public works	127,700	124,189	144,329	20,140
Revenues under expenditures	(58,600)	(54,952)	(72,609)	(17,657)
Other financing sources				
Transfers in	79,000	75,000	75,265	265
Net change in fund balance	20,400	20,048	2,656	(17,392)
Fund balance, beginning of year	14,501	14,501	14,501	-
Fund balance, end of year	\$ 34,901	\$ 34,549	\$ 17,157	\$ (17,392)

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

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over Final Budget
Revenues				
Federal revenue	\$ 234,000	\$ -	\$ 421,845	\$ 421,845
State revenue	17,500	-	11,101	11,101
Charges for services	94,400	126,212	130,602	4,390
Interest	1,200	300	397	97
Rents and royalties	51,000	49,220	57,126	7,906
Proceeds from sale of capital assets	-	1,840	1,840	-
Total revenues	398,100	177,572	622,911	445,339
Expenditures				
Public works	359,100	194,311	624,374	430,063
Debt service				
Principal	21,100	21,060	21,109	49
Interest	9,300	9,370	9,321	(49)
Total expenditures	389,500	224,741	654,804	430,063
Revenues over (under) expenditures	8,600	(47,169)	(31,893)	15,276
Other financing sources				
Transfers in	-	30,000	30,000	-
Net change in fund balance	8,600	(17,169)	(1,893)	15,276
Fund balances, beginning of year	20,925	20,925	20,925	-
Fund balance, end of year	\$ 29,525	\$ 3,756	\$ 19,032	\$ 15,276

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

CITY OF CHARLEVOIX

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

MARCH 31, 2009

	Business-type Activities - Enterprise Funds					
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	Internal Service Funds
Assets						
Current assets						
Cash and cash equivalents	\$ 2,163,673	\$ 321,127	\$ 270,980	\$ 395,574	\$ 3,151,354	\$ 216,255
Investments	1,407,129	259,775	131,227	5,000	1,803,131	280,213
Cash at fiscal agent	-	-	-	111,698	111,698	-
Accounts receivable	803,785	113,906	66,544	-	984,235	-
Interest receivable	40,704	474	2,052	7	43,237	1,714
Other assets	-	-	-	41,476	41,476	32,086
Inventory	229,058	-	35,202	-	264,260	-
Total current assets	4,644,349	695,282	506,005	553,755	6,399,391	530,268
Noncurrent assets						
Restricted investments						
For replacement	75,000	75,000	75,000	-	225,000	-
Capital assets, not being depreciated	187,613	345,125	13,730	32,040	578,508	63,000
Capital assets, net of accumulated depreciation	5,191,098	3,526,003	4,119,009	12,533,166	25,369,276	1,127,484
Advance to other funds	756,650	-	138,500	-	895,150	-
Total noncurrent assets	6,210,361	3,946,128	4,346,239	12,565,206	27,067,934	1,190,484
Total assets	10,854,710	4,641,410	4,852,244	13,118,961	33,467,325	1,720,752
Liabilities						
Current liabilities						
Accounts payable	324,584	152,361	18,898	264,770	760,613	61,967
Accrued expenses	22,713	12,146	12,948	1,525	49,332	22,148
Current portion of:						
Bond payable	-	-	-	35,000	35,000	-
Compensated absences	-	-	-	-	-	4,916
Total current liabilities	347,297	164,507	31,846	301,295	844,945	89,031
Noncurrent liabilities						
Advance from other funds	-	-	-	700,000	700,000	138,500
Bonds payable, net	-	-	-	5,450,000	5,450,000	-
Compensated absences, net	-	-	-	-	-	183,726
Total noncurrent liabilities	-	-	-	6,150,000	6,150,000	322,226
Total liabilities	347,297	164,507	31,846	6,451,295	6,994,945	411,257
Net assets						
Invested in capital assets, net of related debt	5,191,098	3,526,003	4,119,009	6,383,166	19,219,276	1,190,484
Restricted for replacement and redemption	75,000	75,000	75,000	-	225,000	-
Unrestricted	5,241,315	875,900	626,389	284,500	7,028,104	119,011
Total net assets	\$ 10,507,413	\$ 4,476,903	\$ 4,820,398	\$ 6,667,666	\$ 26,472,380	\$ 1,309,495

Continued...

CITY OF CHARLEVOIX
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

MARCH 31, 2009

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

Net assets - total enterprise funds	\$ 26,472,380
Amounts reported for business-type activities in the statement of net assets are different because	
An internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.	
Add - net assets of business-type activities accounted for in business-type activity internal service funds	141,694
Add - net assets allocated to business-type activities from governmental-type activity internal service funds	<u>106,099</u>
Net assets of business-type activities	<u>\$ 26,720,173</u>

Concluded

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

CITY OF CHARLEVOIX

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

FOR THE YEAR ENDED MARCH 31, 2009

	<u>Business-type Activities - Enterprise Funds</u>					<u>Internal Service Funds</u>
	<u>Major Funds</u>				<u>Total</u>	
	<u>Electric Utility</u>	<u>Sewage Disposal Utility</u>	<u>Water Utility</u>	<u>Marina</u>		
Operating revenues						
Charges for services	\$ 5,235,047	\$ 998,371	\$ 733,043	\$ 828,302	\$ 7,794,763	\$ 2,216,127
Operating expenses						
Purchased power	3,151,071	-	-	-	3,151,071	-
Personnel services	752,948	446,013	477,225	131,021	1,807,207	1,885,091
Contractual services	174,453	140,603	45,682	(1,568)	359,170	48,486
Insurance	4,564	12,708	6,719	4,299	28,290	-
Building rental	46,400	19,617	23,183	-	89,200	-
Equipment rental	117,793	72,766	53,270	131	243,960	-
Supplies	89,411	76,530	53,926	12,074	231,941	94,633
Utilities	17,088	132,225	55,194	37,964	242,471	9,987
Repair and maintenance	77,807	49,590	23,529	22	150,948	80,736
Depreciation	580,767	193,004	190,964	445,865	1,410,600	156,737
Amortization	-	-	-	2,440	2,440	-
Miscellaneous	60,697	13,773	10,335	6,239	91,044	3,709
Total operating expenses	5,072,999	1,156,829	940,027	638,487	7,808,342	2,279,379
Operating income (loss)	162,048	(158,458)	(206,984)	189,815	(13,579)	(63,252)
Nonoperating revenues (expenses)						
Interest revenue	95,938	3,784	9,532	7,993	117,247	8,678
Gain on sale of capital assets	8,300	-	-	-	8,300	5,996
Other revenue	-	-	-	-	-	1,804
State revenue	-	-	-	929,249	929,249	-
Interest expense	(41)	-	-	(223,695)	(223,736)	-
Total nonoperating revenues	104,197	3,784	9,532	713,547	831,060	16,478
Income (loss) before transfers	266,245	(154,674)	(197,452)	903,362	817,481	(46,774)
Transfers						
Transfers in	-	334,221	215,490	-	549,711	267,900
Transfers out	(120,300)	(142,221)	(49,100)	-	(311,621)	(211,800)
Total transfers	(120,300)	192,000	166,390	-	238,090	56,100
Change in net assets	145,945	37,326	(31,062)	903,362	1,055,571	9,326
Net assets, beginning of year	10,361,468	4,439,577	4,851,460	5,764,304	25,416,809	1,300,169
Net assets, end of year	\$ 10,507,413	\$ 4,476,903	\$ 4,820,398	\$ 6,667,666	\$ 26,472,380	\$ 1,309,495

Continued...

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

FOR THE YEAR ENDED MARCH 31, 2009

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

Change in net assets - all enterprise funds	\$ 1,055,571
<p>An internal service fund is used by management to charge the costs of certain DPW site capital improvements to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.</p>	
Add - interest revenue from business-type internal service fund	135
Deduct - net operating loss of internal service funds charged to business-type funds	(40,433)
Add - internal activities (transfers) accounted for in business-type internal service fund	<u>16,400</u>
Change in net assets of business-type activities	<u>\$ 1,031,673</u>
	Concluded

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

CITY OF CHARLEVOIX
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED MARCH 31, 2009

	<u>Enterprise Funds</u>					
	<u>Major Funds</u>					<u>Internal Service Funds</u>
	<u>Electric Utility</u>	<u>Sewage Disposal Utility</u>	<u>Water Utility</u>	<u>Marina</u>	<u>Total</u>	
Cash flows from operating activities						
Cash received from customers	\$ 5,180,514	\$ 991,313	\$ 730,010	\$ 1,454,746	\$ 8,356,583	\$ -
Cash received from interfund services	-	-	-	-	-	2,216,127
Cash payments to employees	(752,948)	(443,523)	(475,193)	(130,821)	(1,802,485)	(1,867,448)
Cash payments to suppliers for goods and services	(3,622,771)	(471,208)	(269,891)	(272,762)	(4,636,632)	(232,029)
Net cash provided by (used in) operating activities	804,795	76,582	(15,074)	1,051,163	1,917,466	116,650
Cash flows from noncapital financing activities						
Miscellaneous receipts	-	-	-	-	-	1,804
Transfers in from other funds	-	334,221	215,490	-	549,711	267,900
Transfers out to other funds	(120,300)	(142,221)	(49,100)	-	(311,621)	(211,800)
Net cash (used in) provided by noncapital financing activities	(120,300)	192,000	166,390	-	238,090	57,904
Cash flows from capital and related financing activities						
Proceeds from sale of capital assets	-	-	-	-	-	5,996
State and federal grants	-	-	-	929,249	929,249	-
Purchase of capital assets	(338,028)	(355,196)	(280,012)	(4,181,016)	(5,154,252)	(646,323)
Bond principal payments	-	-	-	(15,000)	(15,000)	-
Bond interest payments	(41)	-	-	(223,695)	(223,736)	-
Net cash used in capital and related financing activities	(338,069)	(355,196)	(280,012)	(3,490,462)	(4,463,739)	(640,327)
Cash flows from investing activities						
Proceeds from matured investments	1,482,456	103,971	356,144	30,000	1,972,571	86,862
Purchase of investments	(1,482,129)	(334,775)	(206,227)	(5,000)	(2,028,131)	(210,213)
Advance from other funds	-	-	-	700,000	700,000	138,500
Advance to other funds	(460,000)	-	(138,500)	-	(598,500)	-
Bond issue cost	-	-	-	2,440	2,440	-
Investment income	116,704	10,457	15,359	8,050	150,570	8,445
Net cash (used in) provided by investing activities	(342,969)	(220,347)	26,776	735,490	198,950	23,594
Net increase (decrease) in cash and cash equivalents	3,457	(306,961)	(101,920)	(1,703,809)	(2,109,233)	(442,179)
Cash and cash equivalents, beginning of year	2,160,216	628,088	372,900	2,211,081	5,372,285	658,434
Cash and cash equivalents, end of year (including \$111,698 for cash at fiscal agent in the Marina Fund.)	\$ 2,163,673	\$ 321,127	\$ 270,980	\$ 507,272	\$ 3,263,052	\$ 216,255

Noncash capital and related financing activities

The City capitalized \$53,100 in the Marina Fund for which payment had not been made (recorded in accounts payable) at year end.

Continued...

CITY OF CHARLEVOIX
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED MARCH 31, 2007

	Enterprise Funds					
	Major Funds					Internal Service Funds
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 162,048	\$ (158,458)	\$ (206,984)	\$ 189,815	\$ (13,579)	\$ (63,252)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	580,767	193,004	190,964	445,865	1,410,600	156,737
Changes in assets and liabilities						
Accounts receivable	(54,533)	(7,058)	(3,033)	626,444	561,820	-
Inventory	56,671	-	5,067	-	61,738	-
Other assets	-	-	-	-	-	8
Accounts payable	49,466	46,604	(3,120)	(211,161)	(118,211)	5,514
Accrued expenses	10,376	2,490	2,032	200	15,098	253
Accrued compensated absences	-	-	-	-	-	17,390
Net cash provided by (used in) operating activities	\$ 804,795	\$ 76,582	\$ (15,074)	\$ 1,051,163	\$ 1,917,466	\$ 116,650

Concluded

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

CITY OF CHARLEVOIX
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
CURRENT TAX COLLECTION FUND
MARCH 31, 2009

Assets	
Cash and cash equivalents	\$ 56,021
Accounts receivable	19,340
Total Assets	<u><u>\$ 75,361</u></u>
Liabilities	
Undistributed receipts	<u><u>\$ 75,361</u></u>

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

CITY OF CHARLEVOIX

INDEX

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009

	<u>PAGE</u>
I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Reporting entity	34
B. Government-wide and fund financial statements	34-36
C. Measurement focus, basis of accounting, and financial statement presentation	36-37
D. Assets, liabilities and net assets or equity	38-40
E. Subsequent events	40
II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
A. Budgetary information	41
B. Excess of expenditures over appropriations	41
C. Deficit fund balance	41
III. DETAILED NOTES ON ALL FUNDS	
A. Deposits and investments	42-43
B. Receivables	43
C. Capital assets	44-47
D. Payables	47
E. Interfund receivables, payables and transfers	47-49
F. Long-term debt	49-51
G. Operating lease and commitment	51-52
IV. OTHER INFORMATION	
A. Risk management	52
B. Property taxes	52-53
C. Defined benefit pension plan	53-54
D. Defined contribution plan	54
E. Entitlement commitment	55
F. Prior period adjustment	56

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

Discretely presented component unit. The Charlevoix Downtown Development Authority (“DDA”) is responsible for certain projects and activities whose purpose is to revitalize the downtown business district. The members of the DDA’s governing Board are appointed by the Mayor of the City. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer at the City of Charlevoix, 210 State Street, Charlevoix, MI 49720.

B. Government-wide and fund financial statements

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

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

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

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by state statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by state statute for local street and highway purposes.

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

The *City Hall Improvements Fund* accounts for a major renovation project at City Hall; the project was substantially complete in December 2005. This fund continues to be classified as a major fund until the advance from other funds is paid off.

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

D. Assets, liabilities and net assets or equity

1. *Deposits and investments*

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

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

Investments are reported at fair value.

2. *Receivables and payables*

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of December 31, 2008, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$10,793. The receivables for Electric Utility, Sewage Disposal and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

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

3. *Restricted assets*

Certain resources have been set aside to fund capital asset replacements and customer deposits payable.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

4. *Inventory*

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

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

6. *Compensated absences*

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

7. *Long-term obligations*

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

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

8. *Fund equity*

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

E. Subsequent events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2009, the most recent balance sheet presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

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

B. Excess of expenditures over appropriations

	Final		
	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
City council	\$ 56,923	\$ 65,993	\$ 9,070
Public safety	1,039,590	1,044,354	4,764
Recreation and culture	913,746	948,043	34,297
Major Street Fund			
Public works (Highways and streets)	538,934	573,452	34,518
Local Street Fund			
Public works (Highways and streets)	124,189	144,329	20,140
Airport			
Public works	194,311	624,374	430,063

C. Deficit fund balance

City Hall renovations from prior years exceeded the revenues generated for the project resulting in a deficit fund balance in the City Hall Improvement Capital Projects fund. Rather than issuing bonds and incurring the costs of debt, the Electric Utility Enterprise Fund transferred a total of \$655,000 during fiscal 2004 through 2006 to provide funds for construction costs. As of March 31, 2009, there is a deficit fund balance of \$53,454 in the City Hall Improvement Fund. The City plans to transfer future amounts budgeted for improvements into the City Hall Improvements Capital Projects Fund after the advance has been repaid and the deficit fund balance is eliminated.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 4,184,174	\$ 167,196	\$ 4,351,370
Cash at fiscal agent	111,698	119,116	230,814
Investments	<u>3,450,934</u>	<u>59,231</u>	3,510,165
Total Statement of Net Assets	<u>\$ 7,746,806</u>	<u>\$ 345,543</u>	
Statement of Fiduciary Net Assets			
Cash and cash equivalents			<u>56,021</u>
Total deposits and investments			<u>\$ 8,148,370</u>

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

Bank deposits (checking accounts, savings accounts and certificate of deposits due within one year)	\$ 7,917,556
Cash with fiscal agent	<u>230,814</u>
Total deposits and investments	<u>\$ 8,148,370</u>

Investment and deposit risk

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

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

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, approximately \$859,000 of the City's bank balance of \$8,014,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

B. Receivables

Receivables in the governmental activities consist of 80 percent due from other governments, 6 percent interest receivable, and 14 percent accounts receivable. Receivables in the business-type activities consist of 4 percent interest receivable and 96 percent due from customers. Receivables in the component unit consist of 54 percent interest receivable, 34 percent taxes receivable and 12 percent accounts receivable.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity for the year ended March 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<u>Primary Government</u>					
Governmental activities					
Capital assets not being depreciated					
Land	\$ 17,892,862	\$ -	\$ -	\$ -	\$ 17,892,862
Construction-in-process	-	19,095	-	-	19,095
Total capital assets not being depreciated	17,892,862	19,095	-	-	17,911,957
Capital assets being depreciated					
Land improvements	5,401,338	67,672	-	-	5,469,010
Infrastructure	618,599	473,881	-	-	1,092,480
Buildings and improvements	9,467,221	-	-	-	9,467,221
Machinery and equipment	2,225,044	477,036	-	-	2,702,080
Engineering equipment	47,184	9,352	-	-	56,536
Furniture and equipment	212,450	-	-	-	212,450
Vehicles	2,161,379	588,644	(11,686)	-	2,738,337
Total capital assets being depreciated	20,133,215	1,616,585	(11,686)	-	21,738,114
Less accumulated depreciation for					
Land improvements	(1,617,283)	(137,725)	-	-	(1,755,008)
Infrastructure	(59,508)	(15,242)	-	-	(74,750)
Buildings and improvements	(3,178,181)	(238,671)	-	-	(3,416,852)
Machinery and equipment	(1,470,675)	(202,757)	-	-	(1,673,432)
Engineering equipment	(39,975)	(6,843)	-	-	(46,818)
Furniture and equipment	(191,316)	(7,730)	-	-	(199,046)
Vehicles	(1,560,956)	(135,402)	11,686	-	(1,684,672)
Total accumulated depreciation	(8,117,894)	(744,370)	11,686	-	(8,850,578)

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net of depreciation	\$ 12,015,321	\$ 872,215	\$ -	\$ -	\$ 12,887,536
Governmental activities capital assets, net of depreciation	<u>\$ 29,908,183</u>	<u>\$ 891,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,799,493</u>
Business-type activities					
Capital assets not being depreciated					
Land	\$ 609,468	\$ -	\$ -	\$ -	\$ 609,468
Construction-in-progress	4,355,254	32,040	-	(4,355,254)	32,040
Total capital assets not being depreciated	4,964,722	32,040	-	(4,355,254)	641,508
Capital assets being depreciated					
Land improvements	5,458,897	4,159,617	-	4,355,254	13,973,768
Buildings and improvements	6,667,585	156,393	-	-	6,823,978
System improvements	20,748,713	662,539	-	-	21,411,252
Equipment	1,357,789	145,663	-	-	1,503,452
Total capital assets being depreciated	34,232,984	5,124,212	-	4,355,254	43,712,450
Less accumulated depreciation for					
Land improvements	(550,820)	(466,092)	-	-	(1,016,912)
Buildings and improvements	(4,072,446)	(189,993)	-	-	(4,262,439)
System improvements	(11,312,200)	(681,845)	-	-	(11,994,045)
Equipment	(950,100)	(81,719)	-	-	(1,031,819)
Total accumulated depreciation	(16,885,566)	(1,419,649)	-	-	(18,305,215)
Total capital assets being depreciated, net of depreciation	17,347,418	3,704,563	-	4,355,254	25,407,235
Business-type activities capital assets, net of depreciation	<u>\$ 22,312,140</u>	<u>\$ 3,736,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,048,743</u>

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<u>Component Unit</u>					
Capital assets not being depreciated – land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated					
Land improvements	2,315,049	-	-	-	2,315,049
Buildings and improvements	3,932,024	10,000	-	-	3,942,024
Machinery and equipment	29,535	2,813	-	-	32,348
Engineering equipment	31,347	-	-	-	31,347
Furniture and equipment	4,814	-	-	-	4,814
Total capital assets being depreciated	<u>6,312,769</u>	<u>12,813</u>	<u>-</u>	<u>-</u>	<u>6,325,582</u>
Less accumulated depreciation for					
Land improvements	(862,256)	(81,727)	-	-	(943,983)
Buildings and improvements	(1,360,043)	(102,547)	-	-	(1,462,590)
Machinery and equipment	(21,794)	(5,790)	-	-	(27,584)
Engineering equipment	(21,149)	(2,604)	-	-	(23,753)
Furniture and equipment	(2,828)	(711)	-	-	(3,539)
Total accumulated depreciation	<u>(2,268,070)</u>	<u>(193,379)</u>	<u>-</u>	<u>-</u>	<u>(2,461,449)</u>
Total capital assets being depreciated, net of depreciation	<u>4,044,699</u>	<u>(180,566)</u>	<u>-</u>	<u>-</u>	<u>3,864,133</u>
Component unit capital assets, net of depreciation	<u>\$ 4,967,770</u>	<u>\$ (180,566)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,787,204</u>

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

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

Governmental activities	
General government	\$ 139,367
Public safety	75,824
Public works, including depreciation of general infrastructure assets	270,815
Recreation and culture	110,676
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>147,688</u>
Total depreciation expense – governmental activities	<u>\$ 744,370</u>
Business-type activities	
Electric	\$ 580,767
Sewage disposal	193,004
Water	190,964
Marina	445,865
Capital assets held by the business-type activity internal service funds are charged to the various functions based on their usage of the assets	<u>9,049</u>
Total depreciation expense – business-type activities	<u>\$ 1,419,649</u>

D. Payables

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

E. Interfund receivables, payables and transfers

In prior years, the Electric Utility Enterprise Fund advanced a total of \$655,000 to the City Hall Improvements Fund for the purpose of assisting in the City Hall renovation project. The remaining advance is to be repaid during the year-end March 31, 2010, with interest charged at 1%. The current balance of this advance is \$56,650.

During the year ended March 31, 2009, the Electric Utility Enterprise Fund advanced a total of \$700,000 to the Marina to cover planned additional costs on the Marina and park area reconstruction project that was completed in July 2008. The advance is to be repaid over eight years with interest charged at 1%. No repayments were made on this advance during the year ended March 31, 2009.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

The Water Utility Enterprise Fund advanced \$138,500 to Motor Pool fund to cover a large portion of the groomer that was purchased during the current year. The advance is to be repaid over ten years with interest charged at 1%. No repayments were made on this advance during the year ended March 31, 2009.

Interfund receivables and payables are established to cover temporary cash deficits.

<u>Transfers in</u>	Transfers out			Subtotal Transfers In
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	
Major Streets	\$ -	\$ 316,336	\$ -	\$ 316,336
Local Streets	75,000	265	-	75,265
City Hall				
Improvements	10,000	60,000	141,900	211,900
Sewer	-	226,100	-	226,100
Water	-	215,490	-	215,490
Airport	30,000	-	-	30,000
Mt. McSauba				
Improvements	-	1,954	-	1,954
Fire Truck and				
Ambulance	-	-	55,500	55,500
Internal Service	14,500	80,000	14,400	108,900
Subtotal transfers out	<u>\$ 129,500</u>	<u>\$ 900,145</u>	<u>\$ 211,800</u>	<u>\$ 1,241,445</u>

<u>Transfers in</u>	Transfers out			Subtotal Transfers In
	Electric Utility	Sewage Disposal Utility	Water Utility	
Sewer	\$ -	\$ 108,121	\$ -	108,121
City Hall Improvements	28,700	8,500	7,300	44,500
Internal Service	91,600	25,600	41,800	159,000
Subtotal transfers out	<u>\$ 120,300</u>	<u>\$ 142,221</u>	<u>\$ 49,100</u>	<u>\$ 311,621</u>

Transfers in/out totaled \$1,553,066 for the year ended March 31, 2009.

Interfund transfers are: (1) to transfer available funds from City Hall Improvements Capital Projects Fund to Motor Pool to cover costs of the groomer purchase, (2) to use accumulated Electric, Water, Sewer and Motor Pool funds to cover depreciation costs of the DPW Site fund and City Hall capital improvements, (3) to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (4) transfer annual planned amount from

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

General Fund to Local Street fund, (5) to use accumulated Infrastructure Improvement funds on the Mercer/Cherry Street work recorded in the Major Street fund, (6) transfer funds from the Motor Pool fund to the Fire Truck and Ambulance fund to replenish the reserve, (7) transfer funds from the Electric and Water fund to the Motor Pool fund to cover the cost of a Vacall vehicle which will be used to open clogged sewer lines and remove debris quickly and efficiently, (8) to use accumulated Infrastructure Improvement funds for the digester upgrade in the sewer fund. Infrastructure Improvement funds were also transferred to the water fund for infrastructure work.

In the year ended March 31, 2009, the City made a one-time transfer of \$108,121 from a sub fund of the sewer department to cover the cost of the Depot Beach main and lift station construction. The City currently records revenue received from the Northside sewer accounts in a sub fund of the sewer department. These funds are accumulated and used to accommodate expansion outside the City.

F. Long-term debt

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

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

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

General obligation bonds, installment purchase agreements, and loans are direct obligations and pledge the full faith and credit of the City. The bonds are issued as 15 to 20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds, installment purchase agreements, and loans currently outstanding are as follows:

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities		
General government – installment purchase	5.625%	\$ 102,750
General government – loan (MDOT)	3.9%	<u>64,498</u>
		<u>\$ 167,248</u>
Business-Type Activities		
Marina – Limited tax general obligation bonds	4.0% - 4.2%	<u>\$ 5,485,000</u>
Component Unit – Downtown Development Authority		
General government – general obligation refunding bond	2.3% - 3.5%	\$ 1,335,000
General government – installment purchase	2.780%	<u>343,043</u>
		<u>\$ 1,678,043</u>

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

<u>Year Ending March 31,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 22,133	\$ 8,296	\$ 35,000	\$ 223,395	\$ 364,347	\$ 49,109
2011	23,212	7,219	100,000	221,995	374,347	39,430
2012	24,342	6,089	160,000	217,995	379,349	28,451
2013	25,530	4,901	180,000	211,595	275,000	18,912
2014	26,776	3,654	210,000	204,395	285,000	9,976
2015-2019	45,255	3,310	1,380,000	877,175	-	-
2020-2024	-	-	1,950,000	557,953	-	-
2025-2027	-	-	<u>1,470,000</u>	<u>124,505</u>	-	-
Total	<u>\$ 167,248</u>	<u>\$ 33,469</u>	<u>\$5,485,000</u>	<u>\$2,639,008</u>	<u>\$1,678,043</u>	<u>\$ 145,878</u>

Revenue bonds. The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

Changes in long-term debt. Long-term debt activity for the year ended March 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Primary Government</u>					
Governmental activities					
Installment purchase agreements	\$ 114,473	\$ -	\$ (11,723)	\$ 102,750	\$ 12,381
Loans	73,884	-	(9,386)	64,498	9,752
Compensated absences – sick leave	97,361	17,731	-	115,092	5,769
Compensated absences – vacation	171,252	17,390	-	188,642	4,916
Total governmental activities	456,970	35,121	(21,109)	470,982	32,818
Business-type activities					
General obligation bonds	5,500,000	-	(15,000)	5,485,000	35,000
Total primary government	\$ 5,956,970	\$ 35,121	\$ (36,109)	\$ 5,955,982	\$ 67,818
<u>Component unit</u>					
General obligation bonds	\$ 1,580,000	\$ -	\$ (245,000)	\$ 1,335,000	\$ 250,000
Installment purchase agreements	457,390	-	(114,347)	343,043	114,347
Total component unit	\$ 2,037,390	\$ -	\$ (359,347)	\$ 1,678,043	\$ 364,347

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

G. Operating lease and commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note for the construction of a storage building, which approximates \$58,000 as of March 31, 2009. Projected operating lease proceeds through the year ended 2028 are as follows:

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

<u>Year Ended March 31,</u>	<u>Amount</u>
2010	\$ 20,543
2011	21,355
2012	22,196
2013	23,066
2014	23,966
2015-2019	134,478
2020-2024	168,470
2025-2028	<u>178,238</u>
	<u>\$ 592,312</u>

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended March 31, 2009, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

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

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2008 levy were assessed and equalized at \$239,030,297 (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 2008-09 was 9.05 mills, with an additional 2.1028 mills levied for infrastructure improvements and an additional .1 mills levied for refuse.

CITY OF CHARLEVOIX

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. Property taxes are recognized in the fiscal year in which they are levied.

C. Defined benefit pension plan

Plan Description

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

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America ("CWA") is 13.17% of annual covered payroll, the Police and Fire ("POLC") rate is 13.18% and the non-union rate is 17.39% of covered payroll. Communication Workers of America affiliated City employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended March 31, 2009, the City's annual pension cost of \$340,778 for MERS was equal to the City's required contributions of \$320,778 plus \$20,000 of voluntary additional contributions. The required contribution was determined as part of the December 31, 2007, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

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, 2008, the date of the last actuarial valuation, was 28 years.

Three-year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/07	\$ 256,120	100%	\$ -
3/31/08	302,536	100%	-
3/31/09	340,778	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	\$ 6,813,506	\$ 9,464,744	\$ 2,651,238	72%	\$ 1,860,553	142%
12/31/07	7,285,089	10,111,411	2,826,322	72%	2,079,727	136%
12/31/08	7,569,880	10,483,326	2,913,446	72%	2,912,987	133%

D. Defined contribution plan

The City provided pension benefits to its City Manager through a defined contribution plan "City of Charlevoix City Manager Money Purchase Plan." In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 20.39% of the City Manager's gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2009.

The City Manager's base payroll during the year ended March 31, 2009, was \$80,579. The current year calculation resulted in a benefit of \$16,430 contributed to the plan. There was no increase to compensation during the year ended March 31, 2009.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

E. Entitlement commitment

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

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

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

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

<u>Year Ended</u> <u>December 31,</u>	<u>Campbell No. 3</u>		<u>Belle River</u>		<u>Combustion</u> <u>Turbine No. 1</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 135,439	\$ 44,870	\$ 286,275	\$ 167,356	\$ 48,616	\$ 71,834	\$ 470,330	\$ 284,060
2011	141,763	39,255	301,373	152,327	50,976	69,646	494,112	261,228
2012	148,087	33,313	317,130	136,567	53,100	67,352	518,317	237,232
2013	154,411	26,996	333,713	119,928	55,932	64,564	544,056	211,488
2014	-	23,715	351,285	102,408	58,764	61,628	410,049	187,751
2015-2019	474,300	23,715	1,599,345	215,285	344,088	258,418	2,417,733	497,418
2020-2024	-	-	-	-	444,388	158,109	444,388	158,109
2025-2027	-	-	-	-	326,624	34,878	326,624	34,878
Total	<u>\$1,054,000</u>	<u>\$ 191,864</u>	<u>\$3,189,121</u>	<u>\$ 893,871</u>	<u>\$1,382,488</u>	<u>\$ 786,429</u>	<u>\$5,625,609</u>	<u>\$1,872,164</u>

During the year ended March 31, 2009, the City purchased power from the Campbell No. 3, Belle River, and Combustion Turbine No. 1 Units.

The City has a deposit of approximately \$127,000 in trust as security for annual debt payments. The City approved purchases of \$5,454,446 in power through MPPA for years 2011 through 2014. The purchased power will be billed to the City over the three year period.

CITY OF CHARLEVOIX

NOTES TO THE FINANCIAL STATEMENTS

F. Prior Period Adjustments

Government-wide Financial Statements

	<u>Governmental Activities</u>	<u>Component Unit</u>
Net assets, beginning of year, as previously reported	\$ 32,046,964	\$ 3,501,209
Error in recording depreciation expense	<u>(51,093)</u>	<u>(13,895)</u>
Net assets, beginning of year, as restated	<u>\$ 31,995,871</u>	<u>\$ 3,487,314</u>

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SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

MARCH 31, 2009

	Capital Projects Funds				
	Fire Truck and Ambulance	Industrial Park	Infrastructure Improvements	Recreation Improvements	Mt. McSauba Improvements
ASSETS					
Cash and cash equivalents	\$ 4,053	\$ 29,310	\$ 226,290	\$ -	\$ 31,656
Investments	-	115,000	200,000	-	-
Accounts receivable	-	-	829	-	503
Interest receivable	-	385	1,262	-	-
Total assets	\$ 4,053	\$ 144,695	\$ 428,381	\$ -	\$ 32,159
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ 392	\$ 15,296	\$ -	\$ -
Fund Balances					
Reserved for perpetual care	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	-	23,500	-	-	8,500
Undesignated	4,053	120,803	413,085	-	23,659
Total fund balances	4,053	144,303	413,085	-	32,159
Total liabilities and fund balances	\$ 4,053	\$ 144,695	\$ 428,381	\$ -	\$ 32,159

Downtown Parking	Total	Permanent Fund Cemetery Care	Total Nonmajor Governmental Funds
\$ 29,375	\$ 320,684	\$ 56,244	\$ 376,928
99,231	414,231	301,239	715,470
-	1,332	-	1,332
1,360	3,007	2,105	5,112
\$ 129,966	\$ 739,254	\$ 359,588	\$ 1,098,842

\$ -	\$ 15,688	\$ -	\$ 15,688
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-	-	359,588	359,588
-	32,000	-	32,000
129,966	691,566	-	691,566
129,966	723,566	359,588	1,083,154
\$ 129,966	\$ 739,254	\$ 359,588	\$ 1,098,842

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

FOR THE YEAR ENDED MARCH 31, 2009

	Capital Projects Funds				
	Fire Truck and Ambulance	Industrial Park	Infrastructure Improvements	Recreation Improvements	Mt. McSauba Improvements
Revenues					
Taxes	\$ -	\$ -	\$ 465,194	\$ -	\$ -
Charges for services	-	-	-	-	-
Interest	1,722	3,592	10,220	11	70
Rents and royalties	-	-	-	-	13,960
Other revenue	-	-	-	-	87,901
Total revenues	1,722	3,592	475,414	11	101,931
Expenditures					
Current					
General government	-	6,237	50,243	-	-
Public safety	173,561	-	-	-	-
Total current expenditures	173,561	6,237	50,243	-	-
Revenues (under) over expenditures	(171,839)	(2,645)	425,171	11	101,931
Other financing sources (uses)					
Transfers in	55,500	-	-	-	1,954
Transfers out	-	-	(818,191)	(1,954)	(80,000)
Total other financing sources (uses)	55,500	-	(818,191)	(1,954)	(78,046)
Net change in fund balances	(116,339)	(2,645)	(393,020)	(1,943)	23,885
Fund balances, beginning of year	120,392	146,948	806,105	1,943	8,274
Fund balances, end of year	\$ 4,053	\$ 144,303	\$ 413,085	\$ -	\$ 32,159

		Permanent Fund	Total Nonmajor Governmental Funds
Downtown Parking	Total	Cemetery Care	
\$ -	\$ 465,194	\$ -	\$ 465,194
-	-	5,875	5,875
3,227	18,842	7,753	26,595
-	13,960	-	13,960
-	87,901	-	87,901
3,227	585,897	13,628	599,525
-	56,480	-	56,480
-	173,561	-	173,561
-	230,041	-	230,041
3,227	355,856	13,628	369,484
-	57,454	-	57,454
-	(900,145)	-	(900,145)
-	(842,691)	-	(842,691)
3,227	(486,835)	13,628	(473,207)
126,739	1,210,401	345,960	1,556,361
\$ 129,966	\$ 723,566	\$ 359,588	\$ 1,083,154

CITY OF CHARLEVOIX
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

MARCH 31, 2009

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 134,508	\$ 41,012	\$ 40,735	\$ 216,255
Investments	100,982	179,231	-	280,213
Interest receivable	52	1,662	-	1,714
Other assets	32,086	-	-	32,086
Total current assets	267,628	221,905	40,735	530,268
Noncurrent assets				
Capital assets, net	-	1,089,525	100,959	1,190,484
Total assets	267,628	1,311,430	141,694	1,720,752
Liabilities				
Current liabilities				
Accounts payable	48,851	13,116	-	61,967
Accrued expenses	18,758	3,390	-	22,148
Current portion of: Compensated absences	4,916	-	-	4,916
Total current liabilities	72,525	16,506	-	89,031
Noncurrent liabilities				
Advance from other funds	-	138,500	-	138,500
Compensated absences, net	183,726	-	-	183,726
Total liabilities	256,251	155,006	-	411,257
Net assets				
Invested in capital assets	-	1,089,525	100,959	1,190,484
Unrestricted	11,377	66,899	40,735	119,011
Total net assets	\$ 11,377	\$ 1,156,424	\$ 141,694	\$ 1,309,495

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

FOR THE YEAR ENDED MARCH 31, 2009

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Operating revenues				
Charges for services	\$ 1,672,490	\$ 543,637	\$ -	\$ 2,216,127
Operating expenses				
Personal services	1,756,333	128,758	-	1,885,091
Contractual services	21,087	27,399	-	48,486
Supplies	-	94,633	-	94,633
Utilities	-	9,987	-	9,987
Repairs and maintenance	-	80,736	-	80,736
Depreciation	-	147,688	9,049	156,737
Miscellaneous	3,338	371	-	3,709
Total operating expenses	1,780,758	489,572	9,049	2,279,379
Operating (loss) income	(108,268)	54,065	(9,049)	(63,252)
Nonoperating revenues				
Interest revenue	1,273	7,270	135	8,678
Gain on sale of capital asset	-	5,996	-	5,996
Other revenue	-	1,804	-	1,804
Total nonoperating revenues	1,273	15,070	135	16,478
(Loss) income before transfers	(106,995)	69,135	(8,914)	(46,774)
Transfers				
Transfers in	4,500	115,000	148,400	267,900
Transfers out	-	(79,800)	(132,000)	(211,800)
Total transfers	4,500	35,200	16,400	56,100
Change in net assets	(102,495)	104,335	7,486	9,326
Net assets, beginning of year	113,872	1,052,089	134,208	1,300,169
Net assets, end of year	\$ 11,377	\$ 1,156,424	\$ 141,694	\$ 1,309,495

CITY OF CHARLEVOIX
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED MARCH 31, 2009

	Employee Fringe Benefits	Motor Vehicle	DPW Site	Total
Cash flows from operating activities				
Cash received from interfund services	\$ 1,672,490	\$ 543,637	\$ -	\$ 2,216,127
Cash payments to employees	(1,738,505)	(128,943)	-	(1,867,448)
Cash payments to suppliers for goods and services	(5,245)	(226,784)	-	(232,029)
Net cash (used in) provided by operating activities	(71,260)	187,910	-	116,650
Cash flows from noncapital financing activities				
Miscellaneous income	-	1,804	-	1,804
Transfers in from other funds	4,500	115,000	148,400	267,900
Transfers out to other funds	-	(79,800)	(132,000)	(211,800)
Net cash provided by noncapital financing activities	4,500	37,004	16,400	57,904
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	5,996	-	5,996
Purchase of capital assets	-	(644,323)	(2,000)	(646,323)
Net cash used in capital and related financing activities	-	(638,327)	(2,000)	(640,327)
Cash flows from investing activities				
Proceeds from matured investments	36,862	50,000	-	86,862
Purchase of investments	(100,982)	(109,231)	-	(210,213)
Advance from other funds	-	138,500	-	138,500
Investment income	2,202	6,108	135	8,445
Net cash (used in) provided by investing activities	(61,918)	85,377	135	23,594
Net (decrease) increase in cash and cash equivalents	(128,678)	(328,036)	14,535	(442,179)
Cash and cash equivalents, beginning of year	263,186	369,048	26,200	658,434
Cash and cash equivalents, end of year	\$ 134,508	\$ 41,012	\$ 40,735	\$ 216,255
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities				
Operating (loss) income	\$ (108,268)	\$ 54,065	\$ (9,049)	\$ (63,252)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities				
Depreciation	-	147,688	9,049	156,737
Changes in assets and liabilities				
Other assets	8	-	-	8
Accounts payable	19,172	(13,658)	-	5,514
Accrued liabilities	438	(185)	-	253
Accrued compensated absences	17,390	-	-	17,390
Net cash (used in) provided by operating activities	\$ (71,260)	\$ 187,910	\$ -	\$ 116,650
Noncash non capital financing activities				
Transfer due from Infrastructure Improvements fund			\$ 9,049	

CITY OF CHARLEVOIX
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2009

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Assets				
Cash	\$ 45,996	\$ 12,776,719	\$ (12,766,694)	\$ 56,021
Account receivable	-	19,340	-	19,340
Total assets	<u>\$ 45,996</u>	<u>\$ 12,796,059</u>	<u>\$ (12,766,694)</u>	<u>\$ 75,361</u>
Liabilities				
Undistributed receipts	<u>\$ 45,996</u>	<u>\$ 22,329,154</u>	<u>\$ (22,299,789)</u>	<u>\$ 75,361</u>

CITY OF CHARLEVOIX

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

MARCH 31, 2009

	Downtown Development Authority	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 167,196	\$ -	\$ 167,196
Cash with fiscal agent	119,116	-	119,116
Investments	59,231	-	59,231
Accounts receivable	281	-	281
Taxes receivable	788	-	788
Interest receivable	1,270	-	1,270
Other assets	-	22,393	22,393
Capital assets not being depreciated	-	923,071	923,071
Capital assets, net of depreciaton	-	3,864,133	3,864,133
Total assets	\$ 347,882	4,809,597	5,157,479
Liabilities			
Accounts payable	\$ 563	-	563
Accrued liabilities	1,408	13,282	14,690
Noncurrent liabilities			
Long-term debt due within one year	-	364,347	364,347
Long-term debt due in more than one year	-	1,313,696	1,313,696
Total liabilities	1,971	1,691,325	1,693,296
Fund balance			
Restricted	345,911	(345,911)	-
Total liabilities and fund balance	\$ 347,882		
Net assets			
Invested in capital assets, net of related debt		3,109,161	3,109,161
Unrestricted		355,022	355,022
Total net assets		\$ 3,464,183	\$ 3,464,183

CITY OF CHARLEVOIX

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
COMPONENT UNIT**

FOR THE YEAR ENDED MARCH 31, 2009

	Downtown Development Authority	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 775,698	\$ -	\$ 775,698
Rents	10	-	10
Gain on sale of capital asset	27,756	-	27,756
Interest	-	-	-
Total revenues	803,464	-	803,464
Expenditures / expenses			
Current			
Other functions	582,784	243,811	826,595
Debt service			
Principal	359,347	(359,347)	-
Interest and fiscal charges	58,261	(58,261)	-
Total expenditures / expenses	1,000,392	(173,797)	826,595
Revenues under expenditures / expenses	(196,928)	173,797	(23,131)
Change in fund balance / net assets	(196,928)	173,797	(23,131)
Fund balance / net assets, beginning of year, as previously reported	542,839	2,958,370	3,501,209
Prior period adjustment	-	(13,895)	(13,895)
Fund balance / net assets, beginning of year, as restated	542,839	2,944,475	3,487,314
Fund balance / net assets, end of year	\$ 345,911	\$ 3,118,272	\$ 3,464,183

INTERNAL CONTROL AND COMPLIANCE

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

September 30, 2009

City Council
City of Charlevoix
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix* (the "City"), as of and for the year ended March 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting. These deficiencies are referenced as 2009-1 and 2009-2.

Finding 2009-1: Management did not properly complete bank reconciliations on a timely basis.

Criteria: Properly completed bank reconciliations, prepared on a timely basis, are a fundamental element of internal control. Effective internal control procedures should also include having those reconciliations reviewed by an independent person.

Condition: During the year, the City did not complete all of its bank reconciliations on a timely basis; therefore, review by an independent person was also not performed.

Cause: City personnel responsible for completing the bank reconciliations failed to do so due to personal issues.

Effect: Cash errors, unintentional or otherwise, cannot be detected and corrected on a timely basis if bank reconciliations are not regularly completed.

Recommendation: Monthly bank reconciliations should be prepared and reviewed within six weeks following month-end. Both the preparer and reviewer of the monthly bank reconciliations should initial and date the document as evidence of completion.

City's Response: Preparation of bank reconciliations has been assigned to another individual. City management will ensure that bank reconciliations for all bank accounts are prepared and reviewed in a timely manner.

Finding 2009-2: Recording, processing and summarizing accounting data

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

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the City has placed 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 have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task. Additionally, the City's financial statements were initially misstated by amounts that were material to the financial statement under audit.

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above are considered to be a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated September 30, 2009.

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

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

Rehmann Johnson