

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2015

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

Table of Contents

| | <u>Page</u> |
|--|-------------|
| List of Elected and Appointed Officials | 1 |
| Independent Auditors' Report | 2-4 |
| Management's Discussion and Analysis | 5-12 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 15 |
| Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 17 |
| Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund | 19 |
| Statement of Net Position - Proprietary Funds | 20 |
| Reconciliation of Net Position of Enterprise Funds to Net Position of Business-Type Activities | 21 |
| Statement of Revenues, Expenses and Change in Fund Net Position - Proprietary Funds | 22 |
| Reconciliation of Change in Net Position of Enterprise Funds to Change in Net Position of Business-Type Activities | 23 |
| Statement of Cash Flows - Proprietary Funds | 24 |
| Statement of Fiduciary Assets and Liabilities - Agency Funds | 25 |
| Notes to the Financial Statements | 26-47 |
| Required Supplementary Information | |
| Schedule of Funding Progress - MERS Defined Benefit Pension Plan | 48 |
| Schedule of Employer Contributions - MERS Defined Benefit Pension Plan | |

CITY OF CHARLEVOIX, MICHIGAN

Table of Contents

| | |
|--|-------|
| Combining and Individual Fund Financial Statements | |
| Combining Balance Sheet - Nonmajor Governmental Funds | 49 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds | 50 |
| Combining Statement of Net Position - Internal Service Funds | 51 |
| Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Internal Service Funds | 52 |
| Combining Statement of Cash Flows - Internal Service Funds | 53 |
| Balance Sheet and Statement of Net Position - Downtown Development Authority Component Unit | 54 |
| Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities - Downtown Development Authority Component Unit | 55 |
| | |
| Single Audit Section | |
| Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 | 56 |
| Schedule of Expenditures of Federal Awards | 57 |
| Notes to Schedule of Expenditures of Federal Awards | 58-59 |
| 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> | 60-61 |
| Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133 | 62-63 |
| Schedule of Findings and Questioned Costs | 64-66 |
| Summary Schedule of Prior Audit Findings | 67 |

CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

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

Appointed Officials

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

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INDEPENDENT AUDITORS' REPORT

September 29, 2015

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Charlevoix, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2015.

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$62,444,000 at the close of the most recent fiscal year.

By far the largest portion of the City's net position (80 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

An additional portion of the City's net position (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (18 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

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

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

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

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CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

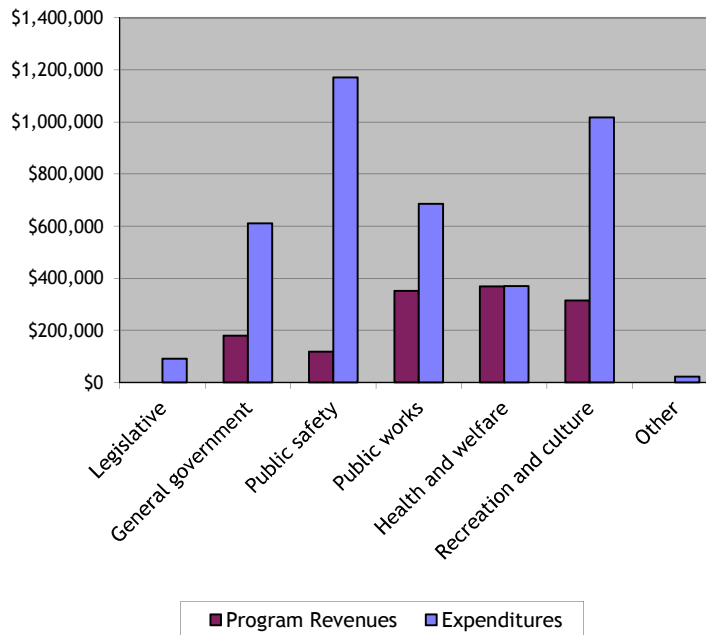
| | Change in Net Position (concluded) | | | | | |
|---|------------------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |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

Concluded

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

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

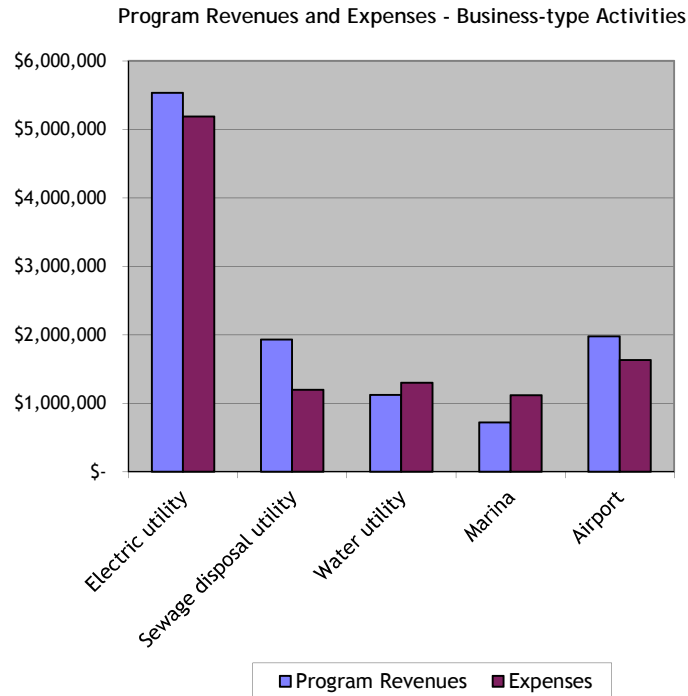
Program Revenues and Expenses - Governmental Activities



CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$2,569,000, an increase of approximately \$554,000 from prior year. This increase was attributable primarily to a reduction in public works expenditures due to completion of major road maintenance projects in fiscal 2014. A significant portion of the fund balances, approximately \$1,174,000 constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

General Fund Budgetary Highlights

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

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Unrestricted net position of the enterprise funds at the end of the year amounted to approximately \$7,994,000 and the net investment in capital assets was approximately \$23,319,000. The changes in enterprise fund net positions were as follows:

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

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2015, amounted to approximately \$57,352,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City (primary government) had total installment purchase agreements outstanding of approximately \$17,000 as well as bonds related to the construction of the marina with a balance of \$4,560,000. The City has pledged its full faith and credit towards the above obligations. Additionally, in the current fiscal year the City issued revenue bonds to fund the wastewater treatment plant improvement project. The outstanding balance at fiscal year end amounted to approximately \$2,375,000.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$23,847,222, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in the notes to the financial statement.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2015-16 fiscal year:

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2015

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

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2015

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

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2015

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

Concluded

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

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FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet

Governmental Funds
March 31, 2015

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

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended March 31, 2015

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

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended March 31, 2015

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

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

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

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

| | |
|---------------------------------|---------|
| Change in long-term receivables | (3,622) |
|---------------------------------|---------|

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

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

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

| | |
|---|---------------|
| Net decrease in compensated absences - sick leave | <u>49,231</u> |
|---|---------------|

| | |
|---|--------------------------|
| Change in net position of governmental activities | <u><u>\$ 509,936</u></u> |
|---|--------------------------|

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

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

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

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

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

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

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

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

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

Concluded

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

Proprietary Funds

March 31, 2015

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

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

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

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

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

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

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

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position

Proprietary Funds

For the Year Ended March 31, 2015

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

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

| | |
|---|------------|
| Change in net position - total enterprise funds | \$ 695,140 |
|---|------------|

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

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net increase (decrease) in the net position of certain internal service funds is allocated to the business-type activities and reported in the statement of activities.

| | |
|---|---------------|
| Change in net position of internal service funds charged to business-type activities | 183,959 |
| Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities | <u>78,432</u> |

| | |
|--|--------------------------|
| Change in net position of business-type activities | <u><u>\$ 957,531</u></u> |
|--|--------------------------|

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2015

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

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

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2015

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

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

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

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

301,200 1,879,394 225,902

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

(2,796) (6,491) 512

(33,123) 20,973 -

42,537 484,241 29,624

405 12,270 3,901

- 16,694 -

- - (21,360)

14,465 14,465 (2,105)

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

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

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2015

Assets

Cash

\$ 81,119

Liabilities

Undistributed receipts

\$ 81,119

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and investments

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

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

Investments are reported at fair value.

Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of March 31, 2015, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$30,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$17,679, \$3,500 and \$220 respectively.

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

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

Inventories

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

Restricted investments

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Capital assets

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

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

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

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

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

Deferred outflows of resources

In addition to assets, the statements of net position or balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until a future period. The City does not have any deferred outflows of resources at March 31, 2015.

Compensated absences

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Long-term obligations

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

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

Deferred inflows of resources

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

Fund balances

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

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

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

The City is reporting a deficit unrestricted net position of \$139,458 in the Airport enterprise fund; however, total net position is not in a deficit. Management is looking at ways to increase revenues and decrease expenses in this fund so that they can eliminate the related deficit.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Interfund transactions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

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

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended March 31, 2015, the City incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

4. DEPOSITS AND INVESTMENTS

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

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

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, approximately \$11,013,000 of the City's bank balance of approximately \$12,794,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

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

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

5. RECEIVABLES

Receivables are comprised of the following as of March 31, 2015:

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

6. CAPITAL ASSETS

Primary Government

Capital assets activity for the primary government for the year ended March 31, 2015, was as follows:

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Discretely presented component unit

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due to and from other funds

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

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

Advances to and from other funds

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

During the year ended March 31, 2009, the Electric Utility Fund advanced a total of \$700,000 to the Marina Fund to cover planned additional costs on the Marina and park area reconstruction project that was substantially complete in July 2008. This advance is to be repaid over eight years with interest charged at 0.5%. During fiscal year ended March 31, 2012, the Electric Utility Fund advanced a total of \$160,000 to the Airport Fund to cover initial costs of airport operations and for cash flow purposes. Interest is charged at 0.5% on this advance and is due annually beginning in fiscal year 2012/13 and principal will be repaid over six years beginning in fiscal year 2015/16.

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

| | Transfers In | Transfers Out |
|------------------------------|-------------------|-------------------|
| General fund | \$ 9,500 | \$ 60,160 |
| Nonmajor governmental funds | 167,000 | 221,000 |
| Electric utility fund | 13,500 | 226,100 |
| Sewage disposal utility fund | 85,000 | 36,200 |
| Water utility fund | 54,209 | - |
| Marina fund | - | 3,500 |
| Airport fund | 42,951 | 10,000 |
| Internal service funds | 284,100 | 99,300 |
| | <u>\$ 656,260</u> | <u>\$ 656,260</u> |

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

9. LONG-TERM DEBT

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

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

General obligation bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued by the Marina fund, as 20 year serial bonds with varying amounts of principal maturing each year. The original amount of general obligation bonds was \$5,500,000.

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

10. OPERATING LEASE AND COMMITMENT

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note payable for the construction of a storage building, which approximates \$39,000 as of March 31, 2015. Projected operating lease proceeds through the year ended 2028 are as follows:

| Year Ended March 31, | Amount |
|-------------------------|-------------------|
| 2016 | \$ 25,862 |
| 2017 | 26,861 |
| 2018 | 27,894 |
| 2019 | 28,963 |
| 2020 | 30,070 |
| 2021-2025 | 180,871 |
| 2026-2028 | <u>135,767</u> |
| | <u>\$ 456,288</u> |

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers’ compensation), as well as medical benefits provided to employees. During the year ended March 31, 2015, the City carried insurance through various commercial carriers, including the Michigan Municipal League and Michigan Township Participating Plan, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. PROPERTY TAXES

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

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2014 levy was assessed and equalized at \$238,472,219 (not including properties subject to Industrial Facilities Tax exemption), representing 50 percent of estimated current market value. The City’s general operating tax rate for fiscal year 2014-15 was 9.0500 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional 1.0000 mill levied for refuse.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

13. DEFINED BENEFIT PENSION PLAN

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

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

For the year ended March 31, 2015, the City's annual pension cost of \$297,084 for MERS represents the City's required contributions. The City employees contributed \$54,170, which was equal to their required contribution. The required contribution is determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 4.5% to 13.0% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year (2% and 3% for calendar years 2015 and 2016, respectively), compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, the date of the last actuarial valuation, was 24 years.

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

14. DEFINED CONTRIBUTION PLAN

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

15. ENTITLEMENT COMMITMENT

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

| Year Ended December 31, | Campbell #3 | | Belle River | |
|----------------------------|-------------------|-----------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 158,100 | \$ 7,905 | \$ 369,683 | \$ 83,966 |
| 2016 | - | - | 389,070 | 64,557 |
| 2017 | - | - | 409,530 | 44,131 |
| 2018 | - | - | 431,063 | 22,631 |
| Total | \$ 158,100 | \$ 7,905 | \$ 1,599,346 | \$ 215,285 |

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

| Year Ended December 31, | AFEC Project | | Total | |
|----------------------------|---------------------|-------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 17,442 | \$ 49,862 | \$ 605,405 | \$ 223,359 |
| 2016 | 17,927 | 49,412 | 470,009 | 192,586 |
| 2017 | 18,734 | 48,695 | 688,516 | 168,293 |
| 2018 | 19,380 | 47,945 | 719,533 | 137,145 |
| 2019 | 20,349 | 47,073 | 297,722 | 105,563 |
| 2020-2024 | 116,605 | 220,115 | 1,181,530 | 388,917 |
| 2025-2029 | 147,290 | 189,449 | 456,214 | 220,848 |
| 2030-2034 | 187,987 | 148,742 | 187,987 | 148,742 |
| 2035-2039 | 239,829 | 96,819 | 239,829 | 96,819 |
| 2040-2043 | 238,698 | 30,564 | 238,698 | 30,564 |
| Total | \$ 1,024,241 | \$ 928,676 | \$ 5,085,443 | \$ 1,712,836 |

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The City's share of this trust fund was approximately \$377,000 at March 31, 2015.

16. COMMITMENTS

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

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

17. NET INVESTMENT IN CAPITAL ASSETS

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

18. FUND BALANCES - GOVERNMENTAL FUNDS

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

| | General Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|-----------------------------------|---------------------|
| Nonspendable: | | | |
| Perpetual care | \$ - | \$ 406,165 | \$ 406,165 |
| Prepays | 2,382 | - | 2,382 |
| Total nonspendable | <u>2,382</u> | <u>406,165</u> | <u>408,547</u> |
| Restricted: | | | |
| Drug forfeitures | 2,000 | - | 2,000 |
| Special revenue funds: | | | |
| Major streets | - | 137,319 | 137,319 |
| Local streets | - | 41,442 | 41,442 |
| Capital project funds: | | | |
| Infrastructure improvements | - | 397,748 | 397,748 |
| Street improvements | - | 184,891 | 184,891 |
| Total restricted | <u>2,000</u> | <u>761,400</u> | <u>763,400</u> |
| Assigned: | | | |
| Subsequent year expenditures | 108,500 | - | 108,500 |
| Capital project funds: | | | |
| Fire truck and ambulance | - | 16,638 | 16,638 |
| Industrial park | - | 90,058 | 90,058 |
| Mt. McSauba improvements | - | 8,236 | 8,236 |
| Total assigned | <u>108,500</u> | <u>114,932</u> | <u>223,432</u> |
| Unassigned | <u>1,173,671</u> | - | <u>1,173,671</u> |
| Total fund balances, governmental funds | <u>\$ 1,286,553</u> | <u>\$ 1,282,497</u> | <u>\$ 2,569,050</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information
Employees' Retirement Plan

Schedule of Funding Progress
MERS Defined Benefit Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Underfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|--|------------------------------|--------------------|---------------------|---|
| 12/31/12 | \$ 8,698,156 | \$ 11,586,142 | \$ 2,887,986 | 75% | \$ 2,406,655 | 120% |
| 12/31/13 | 8,915,155 | 11,830,180 | 2,915,025 | 75% | 2,631,200 | 111% |
| 12/31/14 | 9,067,099 | 12,453,275 | 3,386,176 | 73% | 2,503,586 | 135% |

Schedule of Employer Contributions
MERS Defined Benefit Pension Plan

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

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2015

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

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

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended March 31, 2015

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



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

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2015

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

CITY OF CHARLEVOIX, MICHIGAN

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

Internal Service Funds

For the Year Ended March 31, 2015

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

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2015

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

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2015

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

Concluded

CITY OF CHARLEVOIX, MICHIGAN

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

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities Downtown Development Authority Component Unit For the Year Ended March 31, 2015

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

SINGLE AUDIT ACT COMPLIANCE

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

September 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City") as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 29, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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CITY OF CHARLEVOIX, MICHIGAN

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

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

See notes to schedule of expenditures of federal awards.

CITY OF CHARLEVOIX, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. PASS-THROUGH AGENCIES

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

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

4. FEDERAL AWARD EXPENDITURE RECONCILIATION

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

5. AIRPORT GRANTS

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

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

September 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

City of Charlevoix's Response to Findings

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

Purpose of this Report

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

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

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

September 29, 2015

City Council
City of Charlevoix
Charlevoix, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Independent Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

X yes no

Significant deficiency(ies) identified?

X yes none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes X no

Significant deficiency(ies) identified?

 yes X none reported

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

Unmodified

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

 yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

66.458

Clean Water State Revolving Fund

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

\$ 300,000

Auditee qualified as low-risk auditee?

 yes X no

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended March 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended March 31, 2015

Finding 2014-001 - Material Audit Adjustments

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

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

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



INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 29, 2015

Members of City Council
City of Charlevoix, Michigan
Charlevoix, 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, Michigan* (the "City") as of and for the year ended March 31, 2015, and have issued our report thereon dated September 29, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 9, 2015 our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in the Schedule of Findings and Questioned Costs as part of the Single Audit. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on July 8, 2015.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in Attachment B to this letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment D to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment C to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the City Council and management of the City of Charlevoix, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Johnson LLC

CITY OF CHARLEVOIX, MICHIGAN

Attachment A - Comments and Recommendations

For the March 31, 2015 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the City's internal control over financial reporting is described in our report, dated September 29, 2015, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated September 29, 2015, on the financial statements of the City of Charlevoix, Michigan.

Advances

Repayments on interfund advances should be made within a reasonable period of time. We recommend that City management review the outstanding advances between funds to determine whether they can be repaid within a reasonable period of time or consider recording a transfer from the fund that issued the advance to eliminate the interfund advance provided such transfers are allowed by the related fund or City Charter.



CITY OF CHARLEVOIX, MICHIGAN

Attachment B - Government-Wide Audit Adjustments

For the March 31, 2015 Audit

| Entry # | Account Number | Account Description | Debit | Credit |
|---|--|--|-----------|---------|
| 1 | 934-000-299.001 | GA Accrued Compensation Absences | \$ 49,231 | \$ - |
| | 934-934-800.000 | GA General Government Expenses | - | 49,231 |
| <i>To adjust accrued compensated absences to actual.</i> | | | | |
| 2 | 934-000-299.001 | GA Accrued Compensation Absences | 13,074 | - |
| | 934-000-301.002 | GA Current Portion Of LTD-Accrued Compensated Abs. | - | 13,074 |
| <i>To adjust current portion of accrued compensated absences to actual.</i> | | | | |
| 3 | 934-000-130.000 | CU Capital Assets | 9,811 | - |
| | 934-905-996.255 | CU DDA Expenses | - | 9,811 |
| <i>To record current year additions for the DDA.</i> | | | | |
| 4 | 934-905-996.255 | CU DDA Expenses | 186,457 | - |
| | 934-000-134.000 | CU Accumulated Depreciation | - | 186,457 |
| <i>To record depreciation expense for the DDA.</i> | | | | |
| 5 | 934-000-132.000 | GA Capital Assets | 276,734 | - |
| | 934-934-800.000 | GA General Government Expenses | - | 13,890 |
| | 934-934-801.000 | GA Public Safety Expenses | - | 138,569 |
| | 934-934-803.000 | GA Public Works Expenses | - | 124,275 |
| <i>To record capital asset additions for governmental activities</i> | | | | |
| 6 | 934-934-801.000 | GA Public Safety Expenses | 72,428 | - |
| | 934-934-800.000 | GA General Government Expenses | 145,815 | - |
| | 934-934-803.000 | GA Public Works Expenses | 168,967 | - |
| | 934-934-805.000 | GA Parks & Recreation Expenses | 91,839 | - |
| | 934-000-133.000 | GA Accumulated Depreciation | - | 479,049 |
| <i>To record governmental activities depreciation expense.</i> | | | | |
| 7 | 934-000-425.000 | GA Other Revenue | 3,622 | - |
| | 934-000-275.000 | GA Deferred Inflows Of Resources | - | 3,622 |
| <i>Recognize earned revenue related to the wage reimbursement agreement.</i> | | | | |
| 8 | 934-000-688.000 | GA ISF Net Income | 5,840 | - |
| | 934-900-850.001 | BA Electric Expenses | - | 970 |
| | 934-900-921.001 | BA Marina Expenses | - | 6 |
| | 934-900-922.001 | BA Wastewater Expenses | - | 788 |
| | 934-900-923.001 | BA Water Expenses | - | 583 |
| | 934-934-800.000 | GA General Government Expenses | - | 4 |
| | 934-934-801.000 | GA Public Safety Expenses | - | 745 |
| | 934-934-802.000 | GA Health & Welfare Expenses | - | 95 |
| | 934-934-803.000 | GA Public Works Expenses | - | 2,094 |
| | 934-934-805.000 | GA Parks & Recreation Expenses | - | 555 |
| | 934-000-084.001 | BA Internal Balance | 2,344 | - |
| | 934-000-084.000 | GA Internal Balance | - | 2,344 |
| | <i>To eliminate operating income in the motor vehicle internal service fund.</i> | | | |
| 9 | 934-900-850.001 | BA Electric Expenses | 2,745 | - |
| | 934-900-922.001 | BA Wastewater Expenses | 804 | - |
| | 934-000-688.001 | BA ISF Net Income | - | 3,549 |
| <i>To eliminate operating loss in the department of public works internal service fund.</i> | | | | |

CITY OF CHARLEVOIX, MICHIGAN

Attachment B - Government-Wide Audit Adjustments
 For the March 31, 2015 Audit

| Entry # | Account Number | Account Description | Debit | Credit |
|---------|-----------------|------------------------------|------------|--------|
| 10 | 934-000-688.000 | GA ISF Net Income | \$ 132,688 | \$ - |
| | 934-900-850.001 | BA Electric Expenses | - | 32,411 |
| | 934-900-921.001 | BA Marina Expenses | - | 2,244 |
| | 934-900-922.001 | BA Wastewater Expenses | - | 16,969 |
| | 934-900-923.001 | BA Water Expenses | - | 18,740 |
| | 934-900-924.001 | BA Airport Expenses | - | 5,721 |
| | 934-934-806.000 | GA Legislative | - | 164 |
| | 934-934-800.000 | GA General Govt Expenses | - | 5,301 |
| | 934-934-801.000 | GA Public Safety Expenses | - | 26,982 |
| | 934-934-802.000 | GA Health & Welfare Expenses | - | 6,344 |
| | 934-934-803.000 | GA Public Works Expenses | - | 6,772 |
| | 934-934-805.000 | GA Parks & Rec Expenses | - | 11,040 |
| | 934-000-084.001 | BA Internal Balance | 76,088 | - |
| | 934-000-084.000 | GA Internal Balance | - | 76,088 |

To eliminate operating income in the employee fringe benefit internal service fund.

GA = Governmental activities
 BA = Business-type activities
 CU = Component unit

CITY OF CHARLEVOIX, MICHIGAN

Attachment B - Fund Audit Adjustments

For the March 31, 2015 Audit

| Entry # | Account Number | Account Description | Debit | Credit |
|---------|-----------------|---|------------|-----------|
| 1 | 581-000-360.000 | Contributed Capital | \$ 209,001 | \$ - |
| | 581-000-390.000 | Fund Balance | - | 209,001 |
| | | <i>To close out prior year activity in contributed capital revenue account to fund net position.</i> | | |
| 2 | 582-000-390.000 | Fund Balance | 3,500 | - |
| | 582-000-699.000 | Contributions From Other Funds | - | 3,500 |
| | 594-784-999.000 | Transfer To Other Fund-EFB | 3,500 | - |
| | 594-000-390.000 | Fund Balance | - | 3,500 |
| | | <i>To reflect a reduction in advance between Electric and Marina for principal payment made in 14/15.</i> | | |
| 3 | 582-000-699.000 | Contributions From Other Funds | 3,500 | - |
| | 582-000-198.001 | Advance To Other Funds | - | 3,500 |
| | 594-000-314.000 | Advance From Electric | 3,500 | - |
| | 594-784-999.000 | Transfer To Other Fund-EFB | - | 3,500 |
| | | <i>To reclassify a principal payment on an interfund advance.</i> | | |
| 4 | 582-901-801.000 | Professional Services | 95 | - |
| | 582-000-146.000 | Office Furniture & Equipment | - | 95 |
| | | <i>To adjust capital assets in the Electric Fund to actual.</i> | | |
| 5 | 638-000-259.000 | Accrued Vacation Payroll | 132,898 | - |
| | 638-000-259.001 | Accrued Vacation Payroll-Current Portion | - | 132,898 |
| | | <i>To reclassify the current portion of accrued vacation.</i> | | |
| 6 | 581-000-307.001 | Current Portion Notes Payable | 111 | - |
| | 581-581-995.000 | Loan Interest | - | 111 |
| | | <i>To adjust the long-term debt balance to actual.</i> | | |
| 7 | 590-000-698.000 | Proceeds From Bond Sale | 2,375,318 | - |
| | 590-000-307.000 | Bonds Payable | - | 2,375,318 |
| | | <i>To reclassify bond proceeds in the Sewer Fund.</i> | | |
| 8 | 582-000-045.000 | Special Assessment - Receivable | 413 | - |
| | 582-000-665.000 | Interest Earnings | - | 6 |
| | 582-000-692.000 | Miscellaneous Income | - | 152 |
| | 582-000-001.000 | Cash | - | 255 |
| | 590-000-001.000 | Cash | 164 | - |
| | 590-000-692.000 | Miscellaneous Income | - | 164 |
| | 591-000-001.000 | Cash | 91 | - |
| | 591-000-692.000 | Miscellaneous Income | - | 91 |
| | | <i>To eliminate negative accounts receivable balance.</i> | | |
| 9 | 590-000-158.000 | Construction In Progress | 228,411 | - |
| | 590-000-252.000 | Accrued Retainage Payable | - | 228,411 |
| | | <i>To record retainage related to the wastewater treatment plant improvement project.</i> | | |
| 10 | 590-000-158.000 | Construction In Progress | 2,055,696 | - |
| | 590-902-818.000 | Contractual Services | - | 2,055,696 |
| | | <i>To reclassify capital asset additions related to the wastewater treatment plant.</i> | | |
| 11 | 591-000-569.000 | State Grants - Water O&M | 114,299 | - |
| | 591-000-529.000 | Federal Grants | - | 114,299 |
| | | <i>To reclassify federal revenue into a separate account.</i> | | |

CITY OF CHARLEVOIX, MICHIGAN

Attachment B - Fund Audit Adjustments
 For the March 31, 2015 Audit

| Entry # | Account Number | Account Description | Debit | Credit |
|---------|---|-------------------------------|------------|---------|
| 12 | 590-000-158.000 | Construction In Progress | \$ 698,344 | \$ - |
| | 590-000-136.001 | Building & Improvement - Wwtp | - | 698,344 |
| | <i>To reclassify 2015 Sewer Fund additions to construction in progress.</i> | | | |
| 13 | 590-000-131.000 | Accumulated Depreciation | 23,654 | - |
| | 590-560-968.000 | Depreciation Expenses | - | 23,654 |
| | <i>To adjust accumulated depreciation in the Sewer Fund to actual.</i> | | | |

CITY OF CHARLEVOIX, MICHIGAN

Attachment C - Upcoming Changes in Accounting Standards For the March 31, 2015 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “pronouncements” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 68 ■ Accounting and Financial Reporting for Pensions *Effective 06/15/2015 (your FY 2016)*

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated by the plan actuaries and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 71 ■ Pension Transition for Contributions Made Subsequent to the Measurement Date *Effective with the Implementation of GASB 68*

This standard is an amendment to GASB 68, and seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government’s fiscal year.

CITY OF CHARLEVOIX, MICHIGAN

Attachment C - Upcoming Changes in Accounting Standards For the March 31, 2015 Audit

GASB 72 ■ Fair Value Measurement and Application

Effective 06/15/2016 (your FY 2017)

This standard defines "fair value" as the price that would be received to sell an asset in an orderly transaction between market participants (an "exit price"). Fair value measurement is currently applied principally to investments, which GASB 72 does not change. However, it does introduce specific methods for measuring fair value when a market price is not readily available, and establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

GASB 73 ■ Pensions and Related Assets Not Within the Scope of GASB 68

Effective 06/15/2016 (your FY 2017)

This standard addresses accounting and financial reporting for pensions that were not covered by GASB Statement No. 68, because the plan assets are not held in trust. Essentially, it applies the same treatment as GASB 68, but reflects the total pension liability and plan assets separately, rather than a net pension liability. We do not expect this standard to have any significant effect on the City.

GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans

Effective 06/15/2017 (your FY 2018)

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

GASB 75 ■ Postemployment Benefits Other than Pensions

Effective 06/15/2018 (your FY 2019)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 76 ■ The Hierarchy of GAAP for State and Local Governments

Effective 06/15/2016 (your FY 2017)

This standard clarifies the source of "generally accepted accounting principles" (GAAP) for governments. Authoritative sources of GAAP now include (1) GASB pronouncements, (2) GASB implementation guides, and (3) AICPA literature specifically cleared by the GASB. This standard does not change existing GAAP.

GASB 77 ■ Tax Abatement Disclosures

Effective 12/15/2016 (your FY 2017)

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement.

CITY OF CHARLEVOIX, MICHIGAN

Attachment C - Upcoming Changes in Accounting Standards For the March 31, 2015 Audit

2 CFR 200 ■ Uniform Guidance for Federal Awards

Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2016,

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000 (up from \$500,000). The OMB also made revisions to the list of compliance requirements tested in a single audit.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls (which should be consistent with the COSO framework), and documented procedures for grant administration. Written procedures are required for payments (cash draws), procurement (including conflicts of interest), allowability of costs, compensation, and travel costs. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

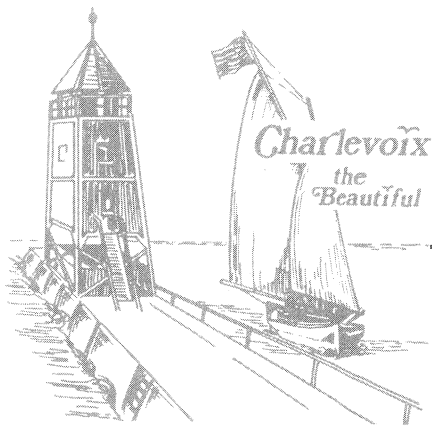
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CITY OF CHARLEVOIX, MICHIGAN

Attachment D - Management Representations

For the March 31, 2015 Audit

The following pages contain the written representations that we requested from management.



CITY OF CHARLEVOIX
210 STATE ST. CHARLEVOIX, MICH. 49720

September 29, 2015

Rehmann Robson
PO Box 250
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of 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, Michigan** (the "City"), as of and for the year ended March 31, 2015, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund of the City in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 29, 2015:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 9, 2015, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. We believe that the actuarial assumptions and methods used to measure pension benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Information Provided

22. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.
24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
25. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
27. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
28. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
29. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
30. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
31. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
32. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
33. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
34. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
35. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
36. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year.

Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

37. With respect to the supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

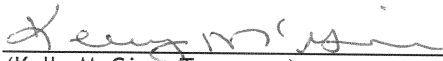
38. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

OMB Circular A-133

39. With respect to federal awards, we represent the following to you:
- d. We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.
 - e. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.
 - f. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.
 - g. The methods of measurement or presentation have not changed from those used in the prior period.
 - h. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - i. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.

- j. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
- k. We have, in accordance with Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
- l. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.
- m. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- n. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- o. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- p. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- q. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- r. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and the U.S. Office of Management and Budget's, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- s. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- t. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- u. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- w. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- x. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- y. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- z. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- aa. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.



(Kelly McGinn, Treasurer)



(Mark Heydlauff, City Manager)