

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2016

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

Mayor	Gabe Campbell
Council Member	Aaron Hagen
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
Wastewater Operator	Randall Wurst
Water Treatment Operator	Shelley Mayer
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 30, 2016

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, 2016, 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, 2016, 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.

Implementation of GASB Statement No. 68

As described in Note 19, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of governmental activities, each enterprise fund, and business-type activities were restated. Our opinion is not modified with respect to this matter.

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 30, 2016, 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 "Rehmann Robson 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, 2016.

Financial Highlights

- The City's total net position increased to approximately \$61,683,000 at the end of the current fiscal compared to approximately \$58,912,000 at the end of the prior period (as restated for GASB 68). Net position of governmental activities increased by approximately \$708,000. Net position of business-type activities increased by approximately \$2,064,000.
- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by approximately \$61,683,000 (net position). Of this amount, approximately \$8,602,000 (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 \$2,772,000.
- At March 31, 2016, the City's governmental funds reported combined ending fund balances of approximately \$6,143,000, an increase of approximately \$3,574,000 from the prior year. Approximately 20% of this total amount or approximately \$1,208,000 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 \$1,208,000 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, and recreation and culture. 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.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

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

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

The City adopts an annual appropriated budget for its General 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. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis and the schedules for the City's pension plan. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

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 and deferred outflows of resources exceeded liabilities by approximately \$61,683,000 at the close of the most recent fiscal year.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

By far the largest portion of the City's net position (85 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (14 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 7,288,317	\$ 3,617,582	\$ 11,795,912	\$ 10,613,919	\$ 19,084,229	\$ 14,231,501
Capital assets, net	27,586,280	26,271,007	38,066,335	31,080,929	65,652,615	57,351,936
	<u>34,874,597</u>	<u>29,888,589</u>	<u>49,862,247</u>	<u>41,694,848</u>	<u>84,736,844</u>	<u>71,583,437</u>
Deferred outflows of resources	690,167	-	807,629	-	1,497,796	-
Liabilities						
Other liabilities	3,135,366	293,040	3,946,210	1,693,442	7,081,576	1,986,482
Long-term liabilities	4,201,166	200,307	13,268,487	6,952,378	17,469,653	7,152,685
	<u>7,336,532</u>	<u>493,347</u>	<u>17,214,697</u>	<u>8,645,820</u>	<u>24,551,229</u>	<u>9,139,167</u>
Net position						
Net investment in capital assets	27,426,963	26,271,007	24,995,347	23,435,551	52,422,310	49,706,558
Restricted	659,107	1,169,565	-	-	659,107	1,169,565
Unrestricted	142,162	1,954,670	8,459,832	9,613,477	8,601,994	11,568,147
Total net position	<u>\$ 28,228,232</u>	<u>\$ 29,395,242</u>	<u>\$ 33,455,179</u>	<u>\$ 33,049,028</u>	<u>\$ 61,683,411</u>	<u>\$ 62,444,270</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.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	Change in Net position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues						
Charges for services	\$ 849,010	\$ 886,458	\$ 10,150,348	\$ 9,767,530	\$ 10,999,358	\$ 10,653,988
Operating grants and contributions	469,271	443,272	349,015	562,023	818,286	1,005,295
Capital grants and contributions	871,200	-	1,687,059	957,372	2,558,259	957,372
General revenues						
Property taxes	2,984,918	2,944,410	-	-	2,984,918	2,944,410
State shared revenue	235,105	242,901	-	-	235,105	242,901
Other revenues	7,728	56,237	-	-	7,728	56,237
Unrestricted investment earnings	7,955	7,677	-	-	7,955	7,677
Total revenues	5,425,187	4,580,955	12,186,422	11,286,925	17,611,609	15,867,880
Expenses:						
Legislative	61,537	90,090	-	-	61,537	90,090
General government	683,651	610,047	-	-	683,651	610,047
Public safety	1,220,058	1,171,592	-	-	1,220,058	1,171,592
Public works	855,604	685,754	-	-	855,604	685,754
Health and welfare	415,473	369,640	-	-	415,473	369,640
Recreation and culture	993,149	1,018,071	-	-	993,149	1,018,071
Other	-	21,865	-	-	-	21,865
Electric utility	-	-	5,342,828	5,186,248	5,342,828	5,186,248
Sewage disposal utility	-	-	1,339,618	1,197,858	1,339,618	1,197,858
Water utility	-	-	1,307,295	1,298,506	1,307,295	1,298,506
Marina	-	-	1,142,134	1,118,025	1,142,134	1,118,025
Airport	-	-	1,478,509	1,632,717	1,478,509	1,632,717
Total expenses	4,229,472	3,967,059	10,610,384	10,433,354	14,839,856	14,400,413

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Change in net position before transfers	\$ 1,195,715	\$ 613,896	\$ 1,576,038	\$ 853,571	\$ 2,771,753	\$ 1,467,467
Transfers	(487,690)	(103,960)	487,690	103,960	-	-
Change in net position	708,025	509,936	2,063,728	957,531	2,771,753	1,467,467
Net position:						
Beginning of year	29,395,242	28,885,306	33,049,028	32,091,497	62,444,270	60,976,803
Restatement for implementation of GASB 68	(1,875,035)	-	(1,657,577)	-	(3,532,612)	-
	27,520,207	28,885,306	31,391,451	32,091,497	58,911,658	87,796,964
End of year	<u>\$ 28,228,232</u>	<u>\$ 29,395,242</u>	<u>\$ 33,455,179</u>	<u>\$ 33,049,028</u>	<u>\$ 61,683,411</u>	<u>\$ 62,444,270</u>
						Concluded

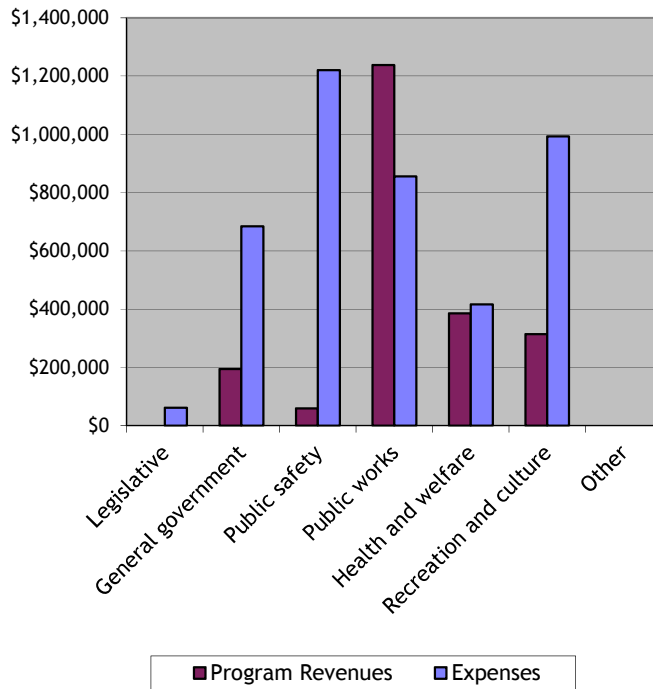
Governmental Activities. Governmental activities increased the City's net position by approximately \$708,000. Key elements of this increase are as follows:

- Total governmental activities revenue increased by approximately \$844,000 or 18.42% compared to prior year, with the most significant increase from a capital grant contribution passed through MDOT in the amount of \$871,200. The money was used for the Lake to Lake Trail project and the State Street Phase project in the amount of \$314,261 and \$556,939 respectively.
- Total expenses for governmental activities increased approximately \$262,000 from the previous fiscal year. The increase is largely attributable to bond issuance costs in the amount of approximately \$67,000 and an increase of approximately \$113,000 related to ambulance fees.

CITY OF CHARLEVOIX, MICHIGAN

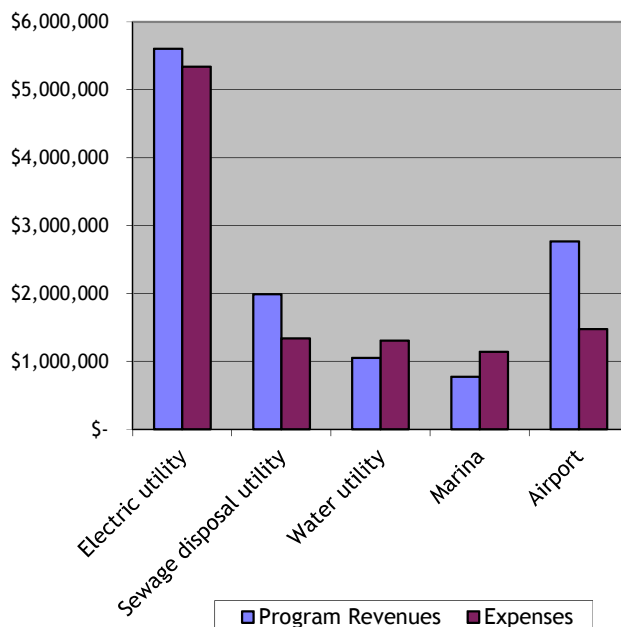
Management's Discussion and Analysis

Program Revenues and Expenses - Governmental Activities



Business-type Activities. Net position of the business-type activities increased by approximately \$2,064,000 during the fiscal year. The increase was mainly attributable to approximately \$1,687,000 received in capital grants and contributions related to the airport and sewer system improvements and from an increase of approximately \$383,000 in charges for services over prior year resulting from adjustment of sewer rates in connection with the waste water treatment plant improvement project.

Program Revenues and Expenses - Business-type Activities



CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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 \$6,143,000, an increase of approximately \$3,574,000 from prior year. This increase was attributable primarily to the issuance of the 2016 Capital Improvement Bonds. A significant portion of the fund balances, approximately \$1,208,000 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 lower than budgetary estimates by approximately \$363,000 and expenditures were lower than budgetary estimates by approximately \$631,000. However, General Fund transfers to other City funds exceeded the budget by approximately \$40,000. This resulted in an increase in the fund balance of approximately \$138,000 compared to a budgeted decrease of approximately \$17,000. 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.

Unrestricted net position of the enterprise funds at the end of the year amounted to approximately \$6,550,000 and the net investment in capital assets was approximately \$24,684,000. The changes in enterprise fund net positions were as follows:

- Electric utility activities increased the City's net position by approximately \$99,000 with charges for services exceeding expenses by approximately \$211,000, approximately \$21,000 in interest revenues, and offsetting net transfer out of approximately \$132,000.
- Sewage disposal utility activities increased the City's net position by approximately \$699,000. This was attributable mainly to the excess of charges for services over the expenses of approximately \$730,000.
- Water utility activities decreased the City's net position by approximately \$6,000 as charges for services were not sufficient to cover fund expenses in current year.
- Marina activities negatively impacted the City's net position by approximately \$371,000 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 \$1,383,000, primarily due to the City receiving \$1,639,700 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, 2016, amounted to approximately \$65,653,000 (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.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

- Wastewater treatment plant improvements
- Infrastructure projects: State Street
- Airport apron reconstruction and expansion project
- Burns Street 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 16,932,797	\$ 16,932,797	\$ 1,569,534	\$ 1,569,534	\$ 18,502,331	\$ 18,502,331
Construction in progress	-	-	9,515,558	2,982,451	9,515,558	2,982,451
Land improvements	1,691,280	1,338,702	13,432,590	12,582,381	15,123,870	13,921,083
Infrastructure	4,046,230	2,783,007	-	-	4,046,230	2,783,007
Buildings and improvements	3,395,369	3,571,570	3,687,980	3,863,828	7,083,349	7,435,398
System improvements	-	-	9,356,959	9,517,484	9,356,959	9,517,484
Machinery and equipment	602,286	652,207	503,714	565,251	1,106,000	1,217,458
Vehicles	918,318	992,724	-	-	918,318	992,724
Total capital assets, net	\$ 27,586,280	\$ 26,271,007	\$ 38,066,335	\$ 31,080,929	\$ 65,652,615	\$ 57,351,936

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

Long-term debt. At the end of the current fiscal year, the City (primary government) had bonds related to the construction of the marina with a balance of approximately \$4,568,000, including bond premium, and capital improvement bonds issued during the fiscal year with a balance of \$4,025,000, including bond premium. The City has pledged its full faith and credit towards the above obligations. Additionally, in the previous fiscal year the City issued revenue bonds to fund the wastewater treatment plant improvement project. During fiscal year 2016, the City issued an additional amount of approximately \$6,300,000 for the wastewater treatment plant improvement project. The outstanding balance at fiscal year end amounted to approximately \$8,701,000.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
2016 Capital improvement bonds	\$ 3,600,000	\$ -	\$ -	\$ -	\$ 3,600,000	\$ -
Marina limited tax general obligation bonds	-	-	4,105,000	4,560,000	4,105,000	4,560,000
Sewage disposal utility fund revenue bonds	-	-	8,700,760	2,375,318	8,700,760	2,375,318
Installment purchase agreement	-	-	-	17,060	-	17,060
Deferred amounts:						
Issuance premiums	425,131	-	462,727	-	887,858	-
Compensated absences	176,035	200,307	-	-	176,035	200,307
Total	\$ 4,201,166	\$ 200,307	\$ 13,268,487	\$ 6,952,378	\$ 17,469,653	\$ 7,152,685

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 \$24,337,772, 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 statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2016-17 fiscal year:

- The unemployment rate for Michigan is currently 4.5% and the national average rate is 4.9%.
- 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 99% 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 2016 tax year, the operating millage of 9.05 mills remained the same as the 2015 tax year to enable the same level of service to taxpayers provided by the General Fund. The infrastructure millage was reduced from 2.0593 to 2.0459 mills. The refuse millage (PA 213) remained at 1.0 mills. Overall, the 2016 tax rates remained consistent as 2015.
- Sewer rates decreased from 22.0% to 18.0%, based on a 2015 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 from 5% in fiscal 2015 to 15% in fiscal 2016, as suggested by a 2015 cost of service study, to offset losses and to fund future capital improvements planned in the fund.
- Electric rates remained unchanged at 2%, per a 2016 cost of service study.
- Wage rates increased 1% for POLC union employees and increased 2% for CWA union employees per their labor contracts with the City. The City's non-union employees also received a 2% rate increase effective April 2016.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

- The employee fringe benefit fund rates remained unchanged at 1.0% for all funds for 2016/17 due to the fund having a sufficient reserve to manage healthcare, pension and other employee benefit costs.
- 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, 2015, the City's plan is 67% funded, down from the 73% 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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 6,663,280	\$ 6,831,557	\$ 13,494,837	\$ 712,477
Cash with fiscal agent	-	112,719	112,719	-
Investments	876,765	1,981,428	2,858,193	50,000
Receivables, net	297,774	1,603,942	1,901,716	20,530
Internal balances	(597,764)	597,764	-	-
Other assets	48,262	443,502	491,764	96
Restricted investments	-	225,000	225,000	-
Capital assets not being depreciated	16,932,797	11,085,092	28,017,889	923,071
Capital assets being depreciated, net	10,653,483	26,981,243	37,634,726	2,639,666
Total assets	34,874,597	49,862,247	84,736,844	4,345,840
Deferred outflows of resources				
Deferred loss on bond refunding	-	197,499	197,499	-
Deferred pension amounts	690,167	610,130	1,300,297	-
Total deferred outflows of resources	690,167	807,629	1,497,796	-
Liabilities				
Accounts payable and accrued liabilities	322,632	1,450,362	1,772,994	12,503
Unearned revenue	12,548	20,408	32,956	5,692
Long-term liabilities:				
Due within one year	330,354	342,066	672,420	-
Due in more than one year	3,870,812	12,926,421	16,797,233	-
Net pension liability	2,800,186	2,475,440	5,275,626	-
Total liabilities	7,336,532	17,214,697	24,551,229	18,195
Net position				
Net investment in capital assets	27,426,963	24,995,347	52,422,310	3,562,737
Restricted for:				
Perpetual care	412,646	-	412,646	-
Drug forfeiture	2,000	-	2,000	-
Street improvements	244,461	-	244,461	-
Downtown development	-	-	-	764,908
Unrestricted	142,162	8,459,832	8,601,994	-
Total net position	\$ 28,228,232	\$ 33,455,179	\$ 61,683,411	\$ 4,327,645

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2016

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 61,537	\$ -	\$ -	\$ -	\$ (61,537)
General government	683,651	174,851	18,609	-	(490,191)
Public safety	1,220,058	24,397	33,931	-	(1,161,730)
Public works	855,604	365	366,599	871,200	382,560
Health and welfare	415,473	385,217	-	-	(30,256)
Recreation and culture	993,149	264,180	50,132	-	(678,837)
Total governmental activities	4,229,472	849,010	469,271	871,200	(2,039,991)
Business-type activities:					
Electric utility	5,342,828	5,583,464	20,808	-	261,444
Sewage disposal utility	1,339,618	1,937,386	4,878	47,359	650,005
Water utility	1,307,295	1,051,282	1,351	-	(254,662)
Marina	1,142,134	449,820	321,978	-	(370,336)
Airport	1,478,509	1,128,396	-	1,639,700	1,289,587
Total business-type activities	10,610,384	10,150,348	349,015	1,687,059	1,576,038
Total primary government	\$ 14,839,856	\$ 10,999,358	\$ 818,286	\$ 2,558,259	\$ (463,953)
Component unit					
Downtown Development Authority	\$ 722,849	\$ 80,064	\$ 56,652	\$ -	\$ (586,133)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net revenue (expense)	\$ (2,039,991)	\$ 1,576,038	\$ (463,953)	\$ (586,133)
General revenues:				
Property taxes	2,984,918	-	2,984,918	430,995
State shared revenues	235,105	-	235,105	-
Other revenue	7,728	-	7,728	-
Unrestricted investment earnings	7,955	-	7,955	-
Transfers - internal activities	(487,690)	487,690	-	-
Total general revenues and transfers	2,748,016	487,690	3,235,706	430,995
Change in net position	708,025	2,063,728	2,771,753	(155,138)
Net position, beginning of year, as restated	27,520,207	31,391,451	58,911,658	4,482,783
Net position, end of year	\$ 28,228,232	\$ 33,455,179	\$ 61,683,411	\$ 4,327,645

Concluded

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

FUND FINANCIAL STATEMENTS

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CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet

Governmental Funds

March 31, 2016

	General Fund	Infrastructure Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,051,803	\$ 3,862,591	\$ 464,753	\$ 5,379,147
Investments	400,000	-	276,765	676,765
Accounts receivable, net	84,503	-	20,198	104,701
Taxes receivable	39,551	7,949	9,466	56,966
Interest receivable	435	-	112	547
Other assets	2,467	-	-	2,467
Due from other funds	37,583	2,540	2,540	42,663
Due from other governmental units	48,904	-	85,967	134,871
Total assets	\$ 1,665,246	\$ 3,873,080	\$ 859,801	\$ 6,398,127
Liabilities				
Accounts payable	\$ 125,867	\$ 4,726	\$ 1,013	\$ 131,606
Accrued liabilities	35,740	-	3,482	39,222
Due to other funds	59,642	2,540	2,540	64,722
Unearned revenue	12,414	-	-	12,414
Total liabilities	233,663	7,266	7,035	247,964
Deferred inflows of resources				
Unavailable revenue - long-term receivable	7,242	-	-	7,242
Fund balances				
Nonspendable	2,467	-	406,165	408,632
Restricted	2,000	3,865,814	250,942	4,118,756
Assigned	211,600	-	195,659	407,259
Unassigned	1,208,274	-	-	1,208,274
Total fund balances	1,424,341	3,865,814	852,766	6,142,921
Total liabilities, deferred inflows of resources and fund balances	\$ 1,665,246	\$ 3,873,080	\$ 859,801	\$ 6,398,127

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, 2016

Fund balances - total governmental funds	\$ 6,142,921
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	10,653,483
Capital assets accounted for in governmental activities internal service funds, net	(1,112,484)
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	2,358,429
Net position allocated to business-type activities from governmental activities internal service funds	(583,629)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(2,800,186)
Deferred outflows related to the net pension liability	690,167
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	7,242
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences - sick leave	(35,377)
Installment debt and bonds payable	(4,025,131)
Net position of governmental activities	<u>\$ 28,228,232</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, 2016

	General Fund	Infrastructure Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,294,274	\$ 465,606	\$ 225,038	\$ 2,984,918
State revenue	236,501	-	374,256	610,757
Licenses and permits	4,942	-	-	4,942
Charges for services	681,564	-	3,825	685,389
Fines and forfeits	21,033	-	-	21,033
Interest	2,497	418	3,067	5,982
Rents and royalties	122,965	-	7,628	130,593
Other revenue	93,276	-	7,500	100,776
Total revenues	3,457,052	466,024	621,314	4,544,390
Expenditures				
Current:				
Legislative	61,617	-	-	61,617
General government	506,011	-	3,499	509,510
Public safety	1,010,832	-	-	1,010,832
Public works	245,539	-	886,564	1,132,103
Health and welfare	419,068	-	-	419,068
Recreation and culture	1,031,542	-	38	1,031,580
Other expenditures	87,207	-	-	87,207
Debt service:				
Bond issuance costs	-	67,023	-	67,023
Capital outlay	-	293,440	-	293,440
Total expenditures	3,361,816	360,463	890,101	4,612,380
Revenues over (under) expenditures	95,236	105,561	(268,787)	(67,990)
Other financing sources (uses)				
Bond proceeds	-	4,025,131	-	4,025,131
Transfers in	133,556	-	506,904	640,460
Transfers out	(91,004)	(662,626)	(270,100)	(1,023,730)
Total other financing sources (uses)	42,552	3,362,505	236,804	3,641,861
Net change in fund balances	137,788	3,468,066	(31,983)	3,573,871
Fund balances, beginning of year	1,286,553	397,748	884,749	2,569,050
Fund balances, end of year	\$ 1,424,341	\$ 3,865,814	\$ 852,766	\$ 6,142,921

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, 2016

Net change in fund balances - total governmental funds \$ 3,573,871

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. In addition donations of capital assets are not reported in the funds but are included in as capital grants and contributions public works revenue in the statement of activities.

Capital outlay	978,147
Donated capital assets	871,200
Depreciation expense	(474,099)

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	(3,621)
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Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(4,025,131)
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Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from governmental activities accounted for in internal service funds	68,137
Change in net position from governmental activities accounted for in internal service funds charged to business-type activities.	(74,767)

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.

Change in the net pension liability and related deferred amounts	(234,984)
Net decrease in compensated absences - sick leave	29,272

Change in net position of governmental activities	\$ 708,025
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The accompanying notes are an integral part of these basic financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended March 31, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 2,163,000	\$ 2,292,315	\$ 2,263,576	\$ (28,739)
Payments in lieu of taxes	4,000	4,000	2,419	(1,581)
Interest and penalties on taxes	8,000	8,000	5,570	(2,430)
Tax collection fees	18,000	18,000	22,709	4,709
Total taxes	<u>2,193,000</u>	<u>2,322,315</u>	<u>2,294,274</u>	<u>(28,041)</u>
State revenue	<u>549,300</u>	<u>555,499</u>	<u>236,501</u>	<u>(318,998)</u>
Licenses and permits	<u>4,000</u>	<u>4,000</u>	<u>4,942</u>	<u>942</u>
Charges for services:				
Fire runs	24,000	24,397	24,397	-
Ambulance runs	245,000	245,000	317,391	72,391
Ambulance contracts	92,000	67,830	67,826	(4)
Cemetery	42,000	30,000	26,825	(3,175)
Golf course	130,000	108,361	108,195	(166)
Summer sports	5,200	5,925	6,118	193
Day camp	67,000	48,073	49,973	1,900
Winter sports	55,000	55,000	44,772	(10,228)
Skate park	3,100	518	268	(250)
Parking	28,400	26,746	26,746	-
Other	5,500	8,270	9,053	783
Total charges for services	<u>697,200</u>	<u>620,120</u>	<u>681,564</u>	<u>61,444</u>
Fines and forfeitures	<u>21,200</u>	<u>21,983</u>	<u>21,033</u>	<u>(950)</u>
Interest	<u>2,500</u>	<u>2,500</u>	<u>2,497</u>	<u>(3)</u>
Rents and royalties:				
City hall	98,400	98,400	99,500	1,100
Boat launch/harbor building	23,300	23,465	23,465	-
Total rents and royalties	<u>121,700</u>	<u>121,865</u>	<u>122,965</u>	<u>1,100</u>
Other revenue	<u>153,100</u>	<u>172,232</u>	<u>93,276</u>	<u>(78,956)</u>
Total revenues	<u>3,742,000</u>	<u>3,820,514</u>	<u>3,457,052</u>	<u>(363,462)</u>

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Legislative:				
City council	\$ 41,700	\$ 71,866	\$ 61,617	\$ (10,249)
General government:				
Mayor	9,400	9,778	4,260	(5,518)
City manager	126,100	110,554	98,322	(12,232)
Elections	24,000	26,141	18,015	(8,126)
Assessor	57,700	57,662	56,849	(813)
City attorney	45,100	45,100	41,016	(4,084)
City clerk	46,200	42,650	39,776	(2,874)
City treasurer	66,200	66,547	60,609	(5,938)
City hall and grounds	132,300	136,721	109,537	(27,184)
Cemetery	81,900	82,061	77,627	(4,434)
Total general government	588,900	577,214	506,011	(71,203)
Public safety:				
Police department	730,400	730,395	716,058	(14,337)
Parking law enforcement	6,700	7,534	7,259	(275)
Fire department	315,200	315,276	227,358	(87,918)
Planning department	63,600	63,799	60,157	(3,642)
Total public safety	1,115,900	1,117,004	1,010,832	(106,172)
Public works:				
Highways and streets	300	300	233	(67)
Leaf pick up	133,100	140,064	144,454	4,390
Waste collection	48,100	48,100	50,236	2,136
Brush pickup	52,100	52,162	50,616	(1,546)
Total public works	233,600	240,626	245,539	4,913

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Health and welfare:				
Ambulance	\$ 387,600	\$ 387,841	\$ 419,068	\$ 31,227
Recreation and culture:				
Parks	995,600	1,004,227	543,322	(460,905)
Recreation administration	43,900	42,787	40,281	(2,506)
City beaches	25,000	14,499	15,868	1,369
Ball fields	13,300	13,381	15,153	1,772
Day camp	67,000	61,385	61,615	230
Ice rink	8,700	8,671	1,902	(6,769)
Mt. McSauba ski hill	113,600	102,183	97,347	(4,836)
Basketball and volleyball	2,400	2,400	3,907	1,507
Golf course	217,600	217,402	220,285	2,883
Boat launch	18,800	21,534	21,938	404
Skate park	4,500	4,510	1,799	(2,711)
Community promotion	8,500	8,570	8,125	(445)
Total recreation and culture	1,518,900	1,501,549	1,031,542	(470,007)
Other expenditures	50,800	40,966	87,207	46,241
Total expenditures	3,937,400	3,937,066	3,361,816	(575,250)
Revenues over (under) expenditures	(195,400)	(116,552)	95,236	211,788
Other financing sources (uses)				
Transfers in	137,600	150,616	133,556	17,060
Transfers out	(50,700)	(50,700)	(91,004)	40,304
Total other financing sources (uses)	86,900	99,916	42,552	57,364
Net change in fund balance	(108,500)	(16,636)	137,788	154,424
Fund balance, beginning of year	1,286,553	1,286,553	1,286,553	-
Fund balance, end of year	\$ 1,178,053	\$ 1,269,917	\$ 1,424,341	\$ 154,424

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, 2016

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,695,343	\$ 2,094,862	\$ 5,586	\$ 111,456
Investments	1,421,242	40,583	44,603	75,000
Cash at fiscal agent	-	101,319	-	11,400
Accounts receivable, net	876,809	518,950	93,520	76,698
Interest receivable	3,210	55	59	33
Due from other funds	1,600	6,168	2,540	7,967
Other assets	252	252	252	-
Inventory	327,490	-	71,246	-
Total current assets	6,325,946	2,762,189	217,806	282,554
Noncurrent assets:				
Restricted investments for replacement	75,000	75,000	75,000	-
Advance to other funds	818,000	-	-	-
Capital assets, not being depreciated	187,613	9,860,683	13,730	-
Capital assets, net of accumulated depreciation	4,139,767	3,964,843	4,361,685	8,097,163
Total noncurrent assets	5,220,380	13,900,526	4,450,415	8,097,163
Total assets	11,546,326	16,662,715	4,668,221	8,379,717
Deferred outflows of resources				
Deferred charge on bond refunding	-	-	-	197,499
Deferred pension amounts	348,838	54,031	146,634	-
Total deferred outflows of resources	348,838	54,031	146,634	197,499
Liabilities				
Current liabilities:				
Accounts payable	298,584	327,626	24,869	6,140
Accrued liabilities	21,517	546,321	9,275	11,675
Customer deposits	66,454	-	-	111,950
Current portion of bonds and notes payable	-	-	-	342,066
Current portion of compensated absences	-	-	-	-
Due to other funds	-	-	2,540	-
Unearned revenue	-	-	-	-
Total current liabilities	386,555	873,947	36,684	471,831
Noncurrent liabilities:				
Advance from other funds	-	-	-	668,000
Bonds payable, net of current portion	-	8,700,760	-	4,225,661
Compensated absences, net of current portion	-	-	-	-
Net pension liability	1,415,320	219,214	594,929	-
Total noncurrent liabilities	1,415,320	8,919,974	594,929	4,893,661
Total liabilities	1,801,875	9,793,921	631,613	5,365,492
Net position				
Net investment in capital assets	4,327,380	5,124,766	4,375,415	3,529,436
Restricted	75,000	75,000	75,000	-
Unrestricted (deficit)	5,690,909	1,723,059	(267,173)	(317,712)
Total net position	\$ 10,093,289	\$ 6,922,825	\$ 4,183,242	\$ 3,211,724

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

Airport	Total	Internal Service Funds
\$ 26,395	\$ 5,933,642	\$ 2,182,048
-	1,581,428	600,000
-	112,719	-
33,925	1,599,902	394
-	3,357	978
-	18,275	53,474
7,757	8,513	45,795
36,253	434,989	-
<u>104,330</u>	<u>9,692,825</u>	<u>2,882,689</u>
-	225,000	-
-	818,000	-
960,066	11,022,092	83,653
<u>6,367,274</u>	<u>26,930,732</u>	<u>1,142,342</u>
<u>7,327,340</u>	<u>38,995,824</u>	<u>1,225,995</u>
<u>7,431,670</u>	<u>48,688,649</u>	<u>4,108,684</u>
-	197,499	-
<u>60,627</u>	<u>610,130</u>	<u>-</u>
<u>60,627</u>	<u>807,629</u>	<u>-</u>
18,970	676,189	113,246
6,981	595,769	38,558
-	178,404	-
-	342,066	-
-	-	105,993
1,600	4,140	45,550
20,408	20,408	134
<u>47,959</u>	<u>1,816,976</u>	<u>303,481</u>
150,000	818,000	-
-	12,926,421	-
-	-	34,665
<u>245,977</u>	<u>2,475,440</u>	<u>-</u>
<u>395,977</u>	<u>16,219,861</u>	<u>34,665</u>
<u>443,936</u>	<u>18,036,837</u>	<u>338,146</u>
7,327,340	24,684,337	1,225,995
-	225,000	-
<u>(278,979)</u>	<u>6,550,104</u>	<u>2,544,543</u>
<u>\$ 7,048,361</u>	<u>\$ 31,459,441</u>	<u>\$ 3,770,538</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-Type Activities
March 31, 2016

Net position - total enterprise funds \$ 31,459,441

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	1,412,109
Net position allocated to business-type activities from governmental activities internal service funds	<u>583,629</u>

Net position of business-type activities \$ 33,455,179

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, 2016

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,583,464	\$ 1,937,386	\$ 1,051,282	\$ 449,820
Operating expenses				
Purchased power	3,094,290	-	-	-
Fuel purchases	-	-	-	-
Personnel services	1,280,197	611,855	656,955	95,460
Contractual services	72,852	81,351	120,882	29,690
Insurance	16,074	12,073	4,400	2,820
Building rental	51,200	23,600	23,600	-
Equipment rental	151,710	84,115	81,598	678
Supplies	65,999	72,669	69,516	6,700
Utilities	59,439	114,672	56,737	59,489
Repairs and maintenance	64,528	16,662	80,703	3,290
Depreciation	464,680	169,157	224,077	658,242
Amortization	-	-	-	26,836
Miscellaneous	51,954	20,940	6,764	9,414
Total operating expenses	5,372,923	1,207,094	1,325,232	892,619
Operating income (loss)	210,541	730,292	(273,950)	(442,799)
Nonoperating revenues (expenses)				
Interest revenue	20,358	2,687	1,351	583
Gain on sale of capital assets	-	-	-	-
Other revenue	450	-	-	321,395
Interest expense	-	(150,849)	-	(181,029)
Bond issuance costs	-	-	-	(69,062)
Total nonoperating revenues (expenses)	20,808	(148,162)	1,351	71,887
Income (loss) before transfers	231,349	582,130	(272,599)	(370,912)
Transfers				
Transfers in	-	109,800	269,950	-
Transfers out	(132,120)	(39,820)	(3,620)	-
Total transfers	(132,120)	69,980	266,330	-
Capital Contributions				
Federal revenue	-	-	-	-
State revenue	-	47,359	-	-
Total capital contributions	-	47,359	-	-
Change in net position	99,229	699,469	(6,269)	(370,912)
Net position, beginning of year, as restated	9,994,060	6,223,356	4,189,511	3,582,636
Net position, end of year	\$ 10,093,289	\$ 6,922,825	\$ 4,183,242	\$ 3,211,724

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

Airport	Total	Internal Service Funds
\$ 1,128,396	\$ 10,150,348	\$ 2,931,650
-	3,094,290	-
673,355	673,355	-
271,409	2,915,876	2,309,577
15,384	320,159	36,866
10,436	45,803	-
-	98,400	-
2,826	320,927	-
4,421	219,305	67,640
29,411	319,748	10,567
11,431	176,614	102,475
385,045	1,901,201	247,823
-	26,836	-
76,091	165,163	1,812
1,479,809	10,277,677	2,776,760
(351,413)	(127,329)	154,890
-	24,979	4,164
-	-	7,428
-	321,845	3,817
(2,085)	(333,963)	-
-	(69,062)	-
(2,085)	(56,201)	15,409
(353,498)	(183,530)	170,299
97,000	476,750	186,500
-	(175,560)	(104,420)
97,000	301,190	82,080
1,639,700	1,639,700	-
-	47,359	-
1,639,700	1,687,059	-
1,383,202	1,804,719	252,379
5,665,159	29,654,722	3,518,159
\$ 7,048,361	\$ 31,459,441	\$ 3,770,538

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, 2016

Change in net position - total enterprise funds \$ 1,804,719

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 184,242

Change in net position of internal service funds accounted for in governmental activities
but charged to business-type activities 74,767

Change in net position of business-type activities \$ 2,063,728

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, 2016

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,661,061	\$ 2,193,664	\$ 1,155,132	\$ 419,323
Cash received from interfund services	-	-	-	-
Cash payments to employees	(1,117,568)	(284,645)	(613,472)	(177,737)
Cash payments to suppliers for goods and services	(3,745,986)	(873,138)	(462,519)	(111,357)
Net cash provided by (used in) operating activities	797,507	1,035,881	79,141	130,229
Cash flows from noncapital financing activities				
Other receipts	450	-	-	321,395
Repayment on advance to other funds	-	-	-	(25,000)
Transfers in	-	109,800	269,950	-
Transfers out	(132,120)	(39,820)	(3,620)	-
Net cash provided by (used in) noncapital financing activities	(131,670)	69,980	266,330	296,395
Cash flows from capital and related financing activities				
Federal receipts	-	-	-	-
State receipts	-	47,359	-	-
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(327,650)	(6,586,575)	(341,318)	-
Proceeds from issuance of long-term debt	-	6,325,442	-	-
Bond and loan principal payments	-	-	-	(255,000)
Bond and loan interest payments	-	(47,315)	-	(184,863)
Net cash used in capital and related financing activities	(327,650)	(261,089)	(341,318)	(439,863)
Cash flows from investing activities				
Receipt of amounts from advance to other funds	35,000	-	-	-
Interest received	20,333	2,679	1,341	836
Net cash provided by (used in) investing activities	55,333	2,679	1,341	836
Net increase (decrease) in cash and cash equivalents	393,520	847,451	5,494	(12,403)
Cash and cash equivalents, beginning of year	3,301,823	1,348,730	92	135,259
Cash and cash equivalents, including cash at fiscal agent, end of year	3,695,343	2,196,181	5,586	122,856
Cash at fiscal agent, end of year	-	(101,319)	-	(11,400)
Cash and cash equivalents, end of year	\$ 3,695,343	\$ 2,094,862	\$ 5,586	\$ 111,456

Airport	Total	Internal Service Funds
\$ 1,154,229	\$ 10,583,409	\$ -
-	-	2,933,720
(250,767)	(2,444,189)	(2,279,791)
(858,823)	(6,051,823)	(213,938)
<u>44,639</u>	<u>2,087,397</u>	<u>439,991</u>
-	321,845	3,817
(10,000)	(35,000)	-
97,000	476,750	186,500
-	(175,560)	(104,420)
<u>87,000</u>	<u>588,035</u>	<u>85,897</u>
1,639,700	1,639,700	-
-	47,359	-
-	-	7,428
(1,726,000)	(8,981,543)	(184,351)
-	6,325,442	-
(17,060)	(272,060)	-
(2,085)	(234,263)	-
<u>(105,445)</u>	<u>(1,475,365)</u>	<u>(176,923)</u>
-	35,000	-
-	25,189	4,907
-	60,189	4,907
26,194	1,260,256	353,872
201	4,786,105	1,828,176
26,395	6,046,361	2,182,048
-	(112,719)	-
<u>\$ 26,395</u>	<u>\$ 5,933,642</u>	<u>\$ 2,182,048</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2016

	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)	\$ 210,541	\$ 730,292	\$ (273,950)	\$ (442,799)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	464,680	169,157	224,077	658,242
Loss on disposal of capital assets	91,439	-	-	-
Changes in assets and liabilities that provided (used) cash:				
Accounts receivable	80,562	256,278	103,850	(76,698)
Other assets	1,320	1,327	1,295	-
Inventory	(81,641)	-	(17,725)	26,836
Accounts payable	(88,632)	(347,064)	(1,889)	724
Accrued liabilities	3,433	207,495	(6,442)	(82,277)
Net pension liability and related deferred amounts	118,770	18,396	49,925	-
Customer deposits	(2,965)	-	-	46,201
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 797,507</u>	<u>\$ 1,035,881</u>	<u>\$ 79,141</u>	<u>\$ 130,229</u>

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

Airport	Total	Internal Service Funds
\$ (351,413)	\$ (127,329)	\$ 154,890
385,045	1,901,201	247,823
-	91,439	-
34,371	398,363	5,574
(4,952)	(1,010)	7,167
13,521	(59,009)	-
(45,109)	(481,970)	(1,745)
1,072	123,281	24,786
20,642	207,733	-
-	43,236	-
-	-	5,000
<u>(8,538)</u>	<u>(8,538)</u>	<u>(3,504)</u>
<u>\$ 44,639</u>	<u>\$ 2,087,397</u>	<u>\$ 439,991</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2016

Assets	
Cash	<u>\$ 88,799</u>
Liabilities	
Undistributed receipts	<u>\$ 88,799</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

The *Infrastructure Improvements Fund* accounts for projects that maintain or improve the City's infrastructure.

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.

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, 2016, 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 statement of financial position 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 one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plans as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Compensated absences

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

Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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 \$267,173, \$317,712 and \$278,979 in the Water, Marina and Airport enterprise funds respectively; however, total net position is not in a deficit. Management is looking at ways to increase revenues and decrease expenses in these funds so that they can eliminate the related deficit.

Interfund transactions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

The budget document presents information by fund, function, 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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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, 2016, 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			
Public works:			
Leaf pick up	\$ 140,064	\$ 144,454	\$ 4,390
Waste collection	48,100	50,236	2,136
Health and welfare:			
Ambulance	387,841	419,068	31,227
Recreation and culture:			
City beaches	14,499	15,868	1,369
Ball fields	13,381	15,153	1,772
Day camp	61,385	61,615	230
Basketball and volleyball	2,400	3,907	1,507
Golf course	217,402	220,285	2,883
Boat launch	21,534	21,938	404
Transfers out	50,700	91,004	40,304

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of March 31, 2016:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 13,494,837	\$ 712,477	\$ 14,207,314
Cash with fiscal agent	112,719	-	112,719
Investments	2,858,193	50,000	2,908,193
Restricted investments	225,000	-	225,000
	<u>16,690,749</u>	<u>762,477</u>	
Total Statement of Net Position	\$ 16,690,749	\$ 762,477	
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			<u>88,799</u>
Total			\$ 17,542,025
Deposits and investments			
Bank deposits (checking and savings accounts)			\$ 14,295,105
Certificate of Deposits:			
Maturing in less than 1 year			2,633,193
Maturing in 2 to 5 years			500,000
Cash with fiscal agent			112,719
Petty cash			<u>1,008</u>
Total			\$ 17,542,025

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 \$15,941,000 of the City's bank balance of approximately \$17,461,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

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

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

5. RECEIVABLES

Receivables are comprised of the following as of March 31, 2016:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable, net	\$ 105,095	\$ 1,599,902	\$ 20,530
Taxes receivable	56,966	-	-
Interest receivable	842	4,040	-
Due from other governmental units	134,871	-	-
	<u>\$ 297,774</u>	<u>\$ 1,603,942</u>	<u>\$ 20,530</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, 2016, 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	3,236,047	439,372	-	-	3,675,419
Infrastructure	3,311,707	1,397,728	(10,563)	-	4,698,872
Buildings and improvements	7,425,504	-	-	-	7,425,504
Machinery and equipment	2,118,177	51,568	(83,803)	-	2,085,942
Vehicles	2,987,351	145,030	(85,875)	-	3,046,506
	<u>19,078,786</u>	<u>2,033,698</u>	<u>(180,241)</u>	<u>-</u>	<u>20,932,243</u>
Less accumulated depreciation for:					
Land improvements	(1,897,345)	(86,794)	-	-	(1,984,139)
Infrastructure	(528,700)	(134,505)	10,563	-	(652,642)
Buildings and improvements	(3,853,934)	(176,201)	-	-	(4,030,135)
Machinery and equipment	(1,465,970)	(101,489)	83,803	-	(1,483,656)
Vehicles	(1,994,627)	(219,436)	85,875	-	(2,128,188)
	<u>(9,740,576)</u>	<u>(718,425)</u>	<u>180,241</u>	<u>-</u>	<u>(10,278,760)</u>
Total capital assets being depreciated, net	<u>9,338,210</u>	<u>1,315,273</u>	<u>-</u>	<u>-</u>	<u>10,653,483</u>
Governmental activities capital assets, net	<u>\$ 26,271,007</u>	<u>\$ 1,315,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,586,280</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	6,533,107	-	-	9,515,558
	<u>4,551,985</u>	<u>6,533,107</u>	<u>-</u>	<u>-</u>	<u>11,085,092</u>
Capital assets being depreciated:					
Land improvements	18,770,335	1,815,800	(27,563)	-	20,558,572
Buildings and improvements	10,152,120	-	(7,446)	-	10,144,674
System improvements	25,620,916	587,302	(91,439)	-	26,116,779
Machinery and equipment	2,649,004	45,334	(34,802)	-	2,659,536
	<u>57,192,375</u>	<u>2,448,436</u>	<u>(161,250)</u>	<u>-</u>	<u>59,479,561</u>
Less accumulated depreciation for:					
Land improvements	(6,187,954)	(965,591)	27,563	-	(7,125,982)
Buildings and improvements	(6,288,292)	(175,848)	7,446	-	(6,456,694)
System improvements	(16,103,432)	(656,388)	-	-	(16,759,820)
Machinery and equipment	(2,083,753)	(106,871)	34,802	-	(2,155,822)
	<u>(30,663,431)</u>	<u>(1,904,698)</u>	<u>69,811</u>	<u>-</u>	<u>(32,498,318)</u>
Total capital assets being depreciated, net	<u>26,528,944</u>	<u>543,738</u>	<u>(91,439)</u>	<u>-</u>	<u>26,981,243</u>
Business-type activities					
capital assets, net	<u>\$ 31,080,929</u>	<u>\$ 7,076,845</u>	<u>\$ (91,439)</u>	<u>\$ -</u>	<u>\$ 38,066,335</u>

Depreciation expense for the year ended March 31, 2016 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 145,682
Public safety	65,125
Public works	175,442
Recreation and culture	87,850
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>244,326</u>
	<u>\$ 718,425</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Depreciation of business-type activities by function	
Electric utility	\$ 464,680
Sewage disposal utility	169,157
Water utility	224,077
Marina	658,242
Airport	385,045
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	3,497
	\$ 1,904,698

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2016, 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	2,378,952	7,500	(64,713)	-	2,321,739
Buildings and improvements	3,960,317	-	(62,500)	-	3,897,817
Machinery and equipment	70,705	-	(2,400)	-	68,305
	6,409,974	7,500	(129,613)	-	6,287,861
Less accumulated depreciation for:					
Land improvements	(1,440,776)	(80,418)	44,959	-	(1,476,235)
Buildings and improvements	(2,084,632)	(91,882)	62,500	-	(2,114,014)
Machinery and equipment	(57,159)	(3,187)	2,400	-	(57,946)
	(3,582,567)	(175,487)	109,859	-	(3,648,195)
Total capital assets being depreciated, net	2,827,407	(167,987)	(19,754)	-	2,639,666
Component unit capital assets, net	\$ 3,750,478	\$ (167,987)	\$ (19,754)	\$ -	\$ 3,562,737

Depreciation expense for the component unit, included in the statement of activities, was \$175,487 for fiscal 2016.

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, 2016:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 244,852	\$ 676,189	\$ 12,503
Accrued liabilities	77,780	595,769	-
Customer deposits	-	178,404	-
	<u>\$ 322,632</u>	<u>\$ 1,450,362</u>	<u>\$ 12,503</u>

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of March 31, 2016, was as follows:

Due to and from other funds

	Due to Other Funds	Due From Other Funds
General fund	\$ 59,642	\$ 37,583
Infrastructure improvements fund	2,540	2,540
Nonmajor governmental funds	2,540	2,540
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	<u>45,550</u>	<u>53,474</u>
	<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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Advances to and from other funds

	Advance to Other Funds	Advance From Other Funds
Electric utility fund	\$ 818,000	\$ -
Marina fund	-	668,000
Airport fund	-	150,000
	<u>\$ 818,000</u>	<u>\$ 818,000</u>

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, however, the City did not begin making payments until fiscal year 2015/16.

For the year ended March 31, 2016, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 133,556	\$ 91,004
Infrastructure improvements fund	-	662,626
Nonmajor governmental funds	506,904	270,100
Electric utility fund	-	132,120
Sewage disposal utility fund	109,800	39,820
Water utility fund	269,950	3,620
Airport fund	97,000	-
Internal service funds	186,500	104,420
	<u>\$ 1,303,710</u>	<u>\$ 1,303,710</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, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
2016 Capital					
Improvement Bonds	\$ -	\$ 3,600,000	\$ -	\$ 3,600,000	\$ 180,000
Deferred amounts:					
Bond premiums	-	425,131	-	425,131	28,342
Compensated absences - sick leave	64,649	29,662	(58,934)	35,377	16,019
Compensated absences - vacation	135,658	150,224	(145,224)	140,658	105,993
Total governmental activities	200,307	4,205,017	(204,158)	4,201,166	330,354
Business-type activities:					
General obligation					
bonds	4,560,000	3,535,000	(3,990,000)	4,105,000	300,000
Revenue bonds	2,375,318	6,325,442	-	8,700,760	-
Installment purchase agreement	17,060	-	(17,060)	-	-
Total installment debt	6,952,378	9,860,442	(4,007,060)	12,805,760	300,000
Deferred amounts:					
Bond premiums	-	462,727	-	462,727	42,066
Total business-type activities	6,952,378	10,323,169	(4,007,060)	13,268,487	342,066
Total primary government	\$ 7,152,685	\$ 14,528,186	\$ (4,211,218)	\$ 17,469,653	\$ 672,420

2016 Capital improvement bonds. During the current year the City issued capital improvement bonds totaling \$7,135,000 to provide funds for the acquisition and construction of road and street improvements and to advance refund a portion of the Marina fund's general obligation bond. The amount used to advance refund the Marina bond totaled \$3,997,727. The refunding resulted in a decrease in future debt service cash flows of \$321,119 and an economic gain of \$262,274. As a result, the bonds are considered defeased and the liability has been removed from the statement of net position. The amount of defeased debt, as a result of this refunding, is \$3,735,000 at March 31, 2016.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Revenue bonds. 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, 2016, the City received bond proceeds in the amount of \$8,700,760.

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.

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
Governmental activities			
2016 Capital Improvement bonds	October 2030	4.0% - 4.2%	\$ 3,600,000
Premium on bonds	October 2030		425,131
			<u>\$ 4,025,131</u>
Business-type activities			
Marina - limited tax general obligation bonds	April 2027	4.0% - 4.2%	\$ 570,000
Marina - 2016 refunding bonds	April 2027	2.0% - 4.0%	3,535,000
Premium on Marina refunding bonds			462,727
Sewer - revenue bonds	April 2036	2.5%	<u>8,700,760</u>
			<u>\$ 13,268,487</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Year Ending March 31,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 180,000	\$ 71,715	\$ 251,715	\$ 300,000	\$ 398,330	\$ 698,330
2018	190,000	133,000	323,000	700,000	394,488	1,094,488
2019	195,000	129,200	324,200	725,000	372,538	1,097,538
2020	200,000	121,400	321,400	745,000	349,338	1,094,338
2021	210,000	113,400	323,400	770,000	325,488	1,095,488
2022-2026	1,180,000	434,200	1,614,200	4,320,000	1,238,679	5,558,679
2027-2031	1,445,000	178,400	1,623,400	3,065,000	618,514	3,683,514
2032-2036	-	-	-	2,180,760	238,128	2,418,888
	<u>\$ 3,600,000</u>	<u>\$ 1,181,315</u>	<u>\$ 4,781,315</u>	<u>\$ 12,805,760</u>	<u>\$ 3,935,503</u>	<u>\$ 16,741,263</u>

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 \$35,000 as of March 31, 2016. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2017	\$ 26,861
2018	27,894
2019	28,963
2020	30,070
2021	31,215
2022-2026	193,487
2027-2028	91,936
	<u>\$ 430,426</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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, 2016, 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 2015 levy was assessed and equalized at \$243,377,720 (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 2015-16 was 9.0500 mills, with an additional 2.0593 mills levied for infrastructure improvements and an additional 1.0000 mill levied for refuse.

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

13. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 year period) and multipliers ranging from 1.5% to 2.25%. Participants are considered to be fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service. Member contributions range from 1% to 4%.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Employees Covered by Benefit Terms. At December 31, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	2
Active employees	45
Total membership	88

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions range from 4.45% to 11.0% of annual payroll for open divisions. Closed divisions have an annual employer contribution ranging from \$14,560 to \$35,999.

Net Pension Liability. The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real Assets	12.50%	4.23%	0.52%
Diversifying strategies	10.00%	6.56%	0.65%
	<u>100.00%</u>		
Inflation			3.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.25%

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	\$ 12,165,233	\$ 8,554,375	\$ 3,610,858
Changes for the year:			
Service cost	167,849	-	167,849
Interest	976,917	-	976,917
Differences between expected and actual experience	85,473	-	85,473
Changes in assumptions	648,378	-	648,378
Employer contributions	-	303,782	(303,782)
Employee contributions	-	53,025	(53,025)
Net investment income	-	(124,534)	124,534
Benefit payments, including refunds of employee contributions	(815,464)	(815,464)	-
Administrative expense	-	(18,424)	18,424
Net changes	1,063,153	(601,615)	1,664,768
Balances at December 31, 2015	\$ 13,228,386	\$ 7,952,760	\$ 5,275,626

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's net pension liability	\$ 6,647,521	\$ 5,275,626	\$ 4,104,084

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended March 31, 2016, the City recognized pension expense of \$732,998. The City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 68,378
Changes in assumptions	518,702
Net difference between projected and actual earnings on pension plan investments	<u>648,473</u>
	1,235,553
Contributions subsequent to the measurement date	<u>64,744</u>
 Total	 <u>\$ 1,300,297</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending March 31, 2017. Other amounts reported as pension-related deferred outflows of resources will be recognized in pension expense as follows:

Year Ended March 31,	Amount
2017	\$ 308,889
2018	308,889
2019	308,889
2020	<u>308,886</u>
 Total	 <u>\$ 1,235,553</u>

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 \$11,666 to the Plan during the year ended March 31, 2016. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2016.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

Year Ended December 31,	Campbell #3		Belle River	
	Principal	Interest	Principal	Interest
2016	\$ 158,100	\$ 7,905	\$ 389,070	\$ 64,557
2017	-	-	409,530	44,131
2018	-	-	431,063	22,631
Total	\$ 158,100	\$ 7,905	\$ 1,229,663	\$ 131,319

Year Ended December 31,	Combustion Turbine No. 1		Campbell Project Bank	
	Principal	Interest	Principal	Interest
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	76,700	36,651	208,692	13,480
2021-2025	445,332	121,693	432,141	12,424
2026-2027	210,984	15,953	-	-
Total	\$ 1,005,124	\$ 355,758	\$ 1,238,452	\$ 123,586

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Year Ended December 31,	AFEC Project		Total	
	Principal	Interest	Principal	Interest
2016	\$ 17,927	\$ 49,412	\$ 628,109	\$ 200,491
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	21,157	46,158	306,549	96,289
2021-2025	122,096	214,647	999,569	348,764
2026-2030	154,719	182,085	365,703	198,038
2031-2035	197,354	139,342	197,354	139,342
2036-2040	251,780	84,828	251,780	84,828
2041-2043	183,303	18,629	183,303	18,629
Total	\$ 1,006,799	\$ 878,814	\$ 4,638,138	\$ 1,497,382

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 \$385,000 at March 31, 2016.

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. As of March 31, 2016, the total project cost was \$8,721,503 and \$289,663 remains to be completed on this construction contract. On December 4, 2015, the City underwent an inspection of the project and did not receive any indication or notice of noncompliance.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of March 31, 2016, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 11,085,092	\$ 923,071
Capital assets being depreciated, net	10,653,483	26,981,243	2,639,666
	<u>27,586,280</u>	<u>38,066,335</u>	<u>3,562,737</u>
Less related debt:			
Noncurrent liabilities:			
Due within one year	(330,354)	(342,066)	-
Due in more than one year	(3,870,812)	(12,926,421)	-
Add back: compensated absences	176,035	-	-
Add back: Deferred charge on bond refunding	-	197,499	-
Add back: unexpended bond proceeds	3,865,814	-	-
	<u>(159,317)</u>	<u>(13,070,988)</u>	<u>-</u>
Net investment in capital assets	<u>\$ 27,426,963</u>	<u>\$ 24,995,347</u>	<u>\$ 3,562,737</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	Infrastructure Improvements	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual care	\$ -	\$ -	\$ 406,165	\$ 406,165
Prepays	2,467	-	-	2,467
Total nonspendable	<u>2,467</u>	<u>-</u>	<u>406,165</u>	<u>408,632</u>
Restricted:				
Drug forfeitures	2,000	-	-	2,000
Special revenue funds:				
Major streets	-	-	65,892	65,892
Local streets	-	-	38,517	38,517
Capital project funds:				
Street improvements	-	3,865,814	140,052	4,005,866
Cemetery care	-	-	6,481	6,481
Total restricted	<u>2,000</u>	<u>3,865,814</u>	<u>250,942</u>	<u>4,118,756</u>
Assigned:				
Subsequent year expenditures	211,600	-	-	211,600
Capital project funds:				
Fire truck and ambulance	-	-	93,151	93,151
Industrial park	-	-	86,634	86,634
Mt. McSauba improvements	-	-	15,874	15,874
Total assigned	<u>211,600</u>	<u>-</u>	<u>195,659</u>	<u>407,259</u>
Unassigned	<u>1,208,274</u>	<u>-</u>	<u>-</u>	<u>1,208,274</u>
Total fund balances, governmental funds	<u>\$ 1,424,341</u>	<u>\$ 3,865,814</u>	<u>\$ 852,766</u>	<u>\$ 6,142,921</u>

19. RESTATEMENT

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities, the Electric Utility Fund, Sewage Disposal Utility Fund, Water Utility Fund, Airport Fund and business-type activities were decreased by \$1,875,035, \$947,712, \$146,787, \$398,370, \$164,708 and \$1,657,577, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in City's Net Pension Liability and Related Ratios

	Year Ended March 31, 2016
Total pension liability	
Service cost	\$ 167,849
Interest	976,917
Differences between expected and actual experience	85,473
Changes of assumptions	648,378
Benefit payments, including refunds of employee contributions	(815,464)
Net change in total pension liability	<u>1,063,153</u>
Total pension liability, beginning of year	<u>12,165,233</u>
Total pension liability, end of year	<u>13,228,386</u>
Plan fiduciary net position	
Employer contributions	303,782
Employee contributions	53,025
Net investment income	(124,534)
Benefit payments, including refunds of employee contributions	(815,464)
Administrative expense	(18,424)
Net change in plan fiduciary net position	<u>(601,615)</u>
Plan fiduciary net position, beginning of year	<u>8,554,375</u>
Plan fiduciary net position, end of year	<u>7,952,760</u>
City's net pension liability	<u>\$ 5,275,626</u>
Plan fiduciary net position as a percentage of total pension liability	60.12%
Covered-employee payroll	\$ 2,601,560
City's net pension liability as a percentage of covered-employee payroll	202.79%

Notes:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended March 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2016	\$ 13,228,386	\$ 7,952,760	\$ 5,275,626	60.12%	\$ 2,601,560	202.79%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending March 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2016	\$ 290,280	\$ 290,280	\$ -	\$ 2,552,035	11.37%

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 15 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	23 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2016

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ -	\$ 22,937	\$ 93,151	\$ 86,634
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other funds	-	2,540	-	-
Due from other governmental units	68,774	17,193	-	-
Total assets	\$ 68,774	\$ 42,670	\$ 93,151	\$ 86,634
Liabilities				
Accounts payable	\$ 446	\$ 567	\$ -	\$ -
Accrued liabilities	2,436	1,046	-	-
Due to other funds	-	2,540	-	-
Total liabilities	2,882	4,153	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	65,892	38,517	-	-
Assigned	-	-	93,151	86,634
Total fund balances	65,892	38,517	93,151	86,634
Total liabilities and fund balances	\$ 68,774	\$ 42,670	\$ 93,151	\$ 86,634



Capital Projects Funds		Permanent Fund	
Street Improvement	Mt. McSauba Improvements	Cemetery Care	Total
\$ 112,735	\$ 13,527	\$ 135,769	\$ 464,753
-	-	276,765	276,765
17,851	2,347	-	20,198
9,466	-	-	9,466
-	-	112	112
-	-	-	2,540
-	-	-	85,967
<u>\$ 140,052</u>	<u>\$ 15,874</u>	<u>\$ 412,646</u>	<u>\$ 859,801</u>
\$ -	\$ -	\$ -	\$ 1,013
-	-	-	3,482
-	-	-	2,540
-	-	-	7,035
-	-	406,165	406,165
140,052	-	6,481	250,942
-	15,874	-	195,659
<u>140,052</u>	<u>15,874</u>	<u>412,646</u>	<u>852,766</u>
<u>\$ 140,052</u>	<u>\$ 15,874</u>	<u>\$ 412,646</u>	<u>\$ 859,801</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended March 31, 2016

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	277,907	96,349	-	-
Charges for services	-	-	-	-
Interest	20	32	13	75
Rents and royalties	-	-	-	-
Contributions	7,500	-	-	-
Total revenues	285,427	96,381	13	75
Expenditures				
Current:				
General government	-	-	-	3,499
Public works	787,258	99,306	-	-
Recreation and culture	-	-	-	-
Total expenditures	787,258	99,306	-	3,499
Revenues over (under) expenditures	(501,831)	(2,925)	13	(3,424)
Other financing sources (uses)				
Transfers in	430,404	-	76,500	-
Transfers out	-	-	-	-
Total other financing sources (uses)	430,404	-	76,500	-
Net change in fund balances	(71,427)	(2,925)	76,513	(3,424)
Fund balances, beginning of year	137,319	41,442	16,638	90,058
Fund balances, end of year	\$ 65,892	\$ 38,517	\$ 93,151	\$ 86,634



Capital Projects Funds		Permanent Fund	
Street Improvement	Mt. McSauba Improvements	Cemetery Care	Total
\$ 225,038	\$ -	\$ -	\$ 225,038
-	-	-	374,256
-	-	3,825	3,825
261	10	2,656	3,067
-	7,628	-	7,628
-	-	-	7,500
<u>225,299</u>	<u>7,638</u>	<u>6,481</u>	<u>621,314</u>
-	-	-	3,499
-	-	-	886,564
<u>38</u>	<u>-</u>	<u>-</u>	<u>38</u>
<u>38</u>	<u>-</u>	<u>-</u>	<u>890,101</u>
<u>225,261</u>	<u>7,638</u>	<u>6,481</u>	<u>(268,787)</u>
-	-	-	506,904
<u>(270,100)</u>	<u>-</u>	<u>-</u>	<u>(270,100)</u>
<u>(270,100)</u>	<u>-</u>	<u>-</u>	<u>236,804</u>
(44,839)	7,638	6,481	(31,983)
<u>184,891</u>	<u>8,236</u>	<u>406,165</u>	<u>884,749</u>
<u>\$ 140,052</u>	<u>\$ 15,874</u>	<u>\$ 412,646</u>	<u>\$ 852,766</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2016

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets:				
Cash and cash equivalents	\$ 695,592	\$ 588,541	\$ 897,915	\$ 2,182,048
Investments	100,000	100,000	400,000	600,000
Accounts receivable	394	-	-	394
Interest receivable	45	250	683	978
Due from other funds	53,474	-	-	53,474
Other assets	45,795	-	-	45,795
Total current assets	895,300	688,791	1,298,598	2,882,689
Noncurrent assets:				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets being depreciated, net	-	1,091,831	50,511	1,142,342
Total noncurrent assets	-	1,112,484	113,511	1,225,995
Total assets	895,300	1,801,275	1,412,109	4,108,684
Liabilities				
Current liabilities:				
Accounts payable	12,116	101,130	-	113,246
Accrued liabilities	34,341	4,217	-	38,558
Due to other funds	45,550	-	-	45,550
Unearned revenue	134	-	-	134
Current portion of compensated absences	105,993	-	-	105,993
Total current liabilities	198,134	105,347	-	303,481
Noncurrent liabilities:				
Compensated absences, net of current portion	34,665	-	-	34,665
Total liabilities	232,799	105,347	-	338,146
Net position				
Net investment in capital assets	-	1,112,484	113,511	1,225,995
Unrestricted	662,501	583,444	1,298,598	2,544,543
Total net position	\$ 662,501	\$ 1,695,928	\$ 1,412,109	\$ 3,770,538

CITY OF CHARLEVOIX, MICHIGAN

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

Internal Service Funds

For the Year Ended March 31, 2016

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,208,907	\$ 722,743	\$ -	\$ 2,931,650
Operating expenses				
Personnel services	2,139,845	169,732	-	2,309,577
Contractual services	4,019	31,895	952	36,866
Supplies	-	67,640	-	67,640
Utilities	-	10,567	-	10,567
Repairs and maintenance	-	102,475	-	102,475
Depreciation	-	244,326	3,497	247,823
Miscellaneous	1,812	-	-	1,812
Total operating expenses	2,145,676	626,635	4,449	2,776,760
Operating income (loss)	63,231	96,108	(4,449)	154,890
Nonoperating revenues				
Interest revenue	1,152	821	2,191	4,164
Gain from sale of capital assets	-	7,428	-	7,428
Other revenue	-	3,817	-	3,817
Total nonoperating revenues	1,152	12,066	2,191	15,409
Income (loss) before transfers	64,383	108,174	(2,258)	170,299
Other financing				
Transfers in	-	-	186,500	186,500
Transfers out	-	(104,420)	-	(104,420)
Total transfers	-	(104,420)	186,500	82,080
Change in net position	64,383	3,754	184,242	252,379
Net position, beginning of year	598,118	1,692,174	1,227,867	3,518,159
Net position, end of year	\$ 662,501	\$ 1,695,928	\$ 1,412,109	\$ 3,770,538

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2016

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,210,977	\$ 722,743	\$ -	\$ 2,933,720
Cash payments to employees	(2,111,113)	(168,678)	-	(2,279,791)
Cash payments to suppliers for goods and services	(7,449)	(205,537)	(952)	(213,938)
Net cash provided by (used in) operating activities	92,415	348,528	(952)	439,991
Cash flows from noncapital financing activities				
Other receipts	-	3,817	-	3,817
Transfers in	-	-	186,500	186,500
Transfers out	-	(104,420)	-	(104,420)
Net cash provided by (used in) noncapital financing activities	-	(100,603)	186,500	85,897
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	7,428	-	7,428
Purchase of capital assets	-	(184,351)	-	(184,351)
Net cash used in capital and related financing activities	-	(176,923)	-	(176,923)
Cash flows from investing activities				
Interest received	1,411	989	2,507	4,907
Net increase in cash and cash equivalents	93,826	71,991	188,055	353,872
Cash and cash equivalents, beginning of year	601,766	516,550	709,860	1,828,176
Cash and cash equivalents, end of year	\$ 695,592	\$ 588,541	\$ 897,915	\$ 2,182,048

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows
 Internal Service Funds
 For the Year Ended March 31, 2016

	Governmental Activities		Business-type	Total
	Employee Fringe Benefits	Motor Vehicle	Activities DPW Site	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 63,231	\$ 96,108	\$ (4,449)	\$ 154,890
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	244,326	3,497	247,823
Changes in operating assets and liabilities that provided (used) cash:				
Accounts receivable	5,574	-	-	5,574
Other assets	7,161	6	-	7,167
Accounts payable	(8,779)	7,034	-	(1,745)
Accrued liabilities	23,732	1,054	-	24,786
Unearned revenue	(3,504)	-	-	(3,504)
Accrued compensated absences	5,000	-	-	5,000
Net cash provided by (used in) operating activities	<u>\$ 92,415</u>	<u>\$ 348,528</u>	<u>\$ (952)</u>	<u>\$ 439,991</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position Downtown Development Authority Component Unit March 31, 2016

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 712,477	\$ -	\$ 712,477
Investments	50,000	-	50,000
Receivables	20,530	-	20,530
Other assets	96	-	96
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	2,639,666	2,639,666
Total assets	\$ 783,103	3,562,737	4,345,840
Liabilities			
Accounts payable	\$ 11,436	1,067	12,503
Accrued liabilities	1,067	(1,067)	-
Unearned revenue	5,692	-	5,692
Total liabilities	18,195	-	18,195
Fund balance			
Restricted	764,908	(764,908)	-
Total liabilities and fund balance	\$ 783,103		
Net position			
Net investment in capital assets		3,562,737	3,562,737
Restricted		764,908	764,908
Total net position		\$ 4,327,645	\$ 4,327,645

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, 2016

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 430,995	\$ -	\$ 430,995
Rents	80,064	-	80,064
Miscellaneous	56,652	-	56,652
Total revenues	567,711	-	567,711
Expenditures / expenses			
Current:			
Other functions	535,108	187,741	722,849
Change in fund balance / net position	32,603	(187,741)	(155,138)
Fund balance / net position, beginning of year	732,305	3,750,478	4,482,783
Fund balance / net position, end of year	\$ 764,908	\$ 3,562,737	\$ 4,327,645

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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 30, 2016

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix* (the "City"), as of and for the year ended March 31, 2016, 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 30, 2016.

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 2016-001 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 2016-002 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 "Lehmann Johnson 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, 2016

2016-001 - 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, 2016

2016-002 - 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 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 City 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 the City accepts responsibility for the financial statements and 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.

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 30, 2016

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, 2016, and have issued our report thereon dated September 30, 2016. 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 1, 2016, 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 a separate letter to you dated September 30, 2016.

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 22, 2016.

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.

As described in Note 19 to the financial statements, the City changed accounting policies related to accounting for pension plans by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

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.

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. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

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 A to this letter.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

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 C 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 B 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.

Rehmann Johnson LLC

CITY OF CHARLEVOIX, MICHIGAN

Attachment A - Fund Audit Adjustments

For the March 31, 2016 Audit

Entry #	Account Number	Account Description	Debit	Credit
1	638-000-259.001	Accrued Vacation Payroll-Current Portion	\$ 26,905	\$ -
	638-000-259.000	Accrued Vacation Payroll	-	26,905
		<i>To reclassify the current portion of accrued vacation.</i>		
2	582-000-111.000	Inventory Of Material & Supply	17,114	-
	582-539-706.000	Salaries & Wages - Permanent	13,562	-
	582-539-719.000	Employee Fringe Benefits	10,443	-
	582-539-943.000	Equipment Rental	9,748	-
	582-000-143.003	Meters & Services	-	50,867
		<i>To eliminate repair jobs which were previously capitalized.</i>		
3	582-000-111.000	Inventory Of Material & Supply	31,535	-
	582-539-706.000	Salaries & Wages - Permanent	22,711	-
	582-539-943.000	Equipment Rental	19,478	-
	582-539-719.000	Employee Fringe Benefits	17,715	-
	582-000-143.003	Meters & Services	-	90,189
	582-000-143.002	Line Transformers	-	1,250
		<i>To eliminate repair jobs which were previously capitalized.</i>		
4	582-000-131.000	Accumulated Depreciation	65,524	-
	582-000-143.004	St Lts, Signal Sys. & Sec Lts.	36,388	-
	582-000-143.001	Undergrnd Conductors & Devices	1	-
	582-000-143.000	Poles, Towers & Fixtures	2	-
	582-000-132.000	Land Improvements	1	-
	582-000-136.002	Build & Improv-Carpenter	2	-
	582-000-146.000	Office Furniture & Equipment	-	47,598
	582-000-142.000	Substation	-	36,387
	582-540-968.000	Depreciation Expense	-	17,933
		<i>To adjust capital asset balances to actual as of March 31, 2016.</i>		
5	594-965-995.000	Interest	72,863	-
	594-000-170.000	Deferred Charge-Bond Refunding	-	72,863
		<i>To reclassify fiscal year 2016 interest accrued through March 31, 2016.</i>		
6	594-000-314.000	Advance From Electric	25,000	-
	582-000-699.000	Contributions From Other Funds	25,000	-
	582-000-198.001	Advance To Other Funds	-	25,000
	594-784-999.000	Transfer To Other Fund-Efb	-	25,000
		<i>To reclassify payments made on advance to the Marina.</i>		
7	581-000-314.000	Advance From Electric	10,000	-
	582-000-699.000	Contributions From Other Funds	10,000	-
	582-000-198.000	Advance To Other Funds	-	10,000
	581-581-999.000	Transfers Out	-	10,000
		<i>To reclassify payments made on advance to the Airport.</i>		
8	594-000-307.000	Bonds Payable	275,000	-
	594-000-307.001	Current Portion Bonds Payable	-	275,000
		<i>To reclassify current portion of the 2006 Marina Bond.</i>		
9	594-000-308.001	Premium Of Refunding Bonds	42,066	-
	594-000-308.000	Refunding Bonds Payable	25,000	-
	594-000-308.002	Bond Payable-Current	-	67,066
		<i>To reclassify current portion of the 2016 Refunding Bond.</i>		

CITY OF CHARLEVOIX, MICHIGAN

Attachment A - Fund Audit Adjustments

For the March 31, 2016 Audit

Entry #	Account Number	Account Description	Debit	Credit
10	407-000-040.001	Accounts Rec-Misc	\$ 17,851	\$ -
	101-000-040.001	Accounts Receivable-Misc	3,355	-
	407-000-403.000	Property Taxes-County Street	-	17,851
	101-000-447.000	Tax Admin. Fees	-	3,355
	<i>To book County Road revenue.</i>			
11	101-000-040.000	Accounts Receivable	27,064	-
	101-000-637.000	Ambulance Runs	-	27,064
	<i>To book adjustments to ambulance invoices.</i>			
12	101-651-975.000	Bad Debt Expense	8,853	-
	101-000-040.000	Accounts Receivable	-	8,853
	<i>To record write off in fiscal year 2016 receivables erroneously booked in fiscal year 2017.</i>			
13	582-000-390.000	Fund Balance	947,712	-
	591-000-390.000	Fund Balance	398,370	-
	581-000-390.000	Fund Balance	164,708	-
	590-000-390.000	Fund Balance	146,787	-
	582-000-190.000	Deferred Outflows - Contributions	20,992	-
	591-000-190.000	Deferred Outflows - Contributions	8,824	-
	581-000-190.000	Deferred Outflows - Contributions	3,649	-
	590-000-190.000	Deferred Outflows - Contributions	3,252	-
	582-000-300.000	Net Pension Liability	-	968,704
	591-000-300.000	Net Pension Liability	-	407,194
	581-000-300.000	Net Pension Liability	-	168,357
	590-000-300.000	Net Pension Liability	-	150,039
	<i>To record restatement for implementation of GASB 68.</i>			
14	582-000-191.000	Deferred Outflows - Investment Returns	173,969	-
	582-000-193.000	Deferred Outflows - Assumptions	139,155	-
	582-539-719.000	Employee Fringe Benefits	118,770	-
	591-000-191.000	Deferred Outflows - Investment Returns	73,128	-
	591-000-193.000	Deferred Outflows - Assumptions	58,494	-
	591-579-719.000	Employee Fringe Benefits	49,925	-
	581-000-191.000	Deferred Outflows - Investment Returns	30,235	-
	590-000-191.000	Deferred Outflows - Investment Returns	26,945	-
	581-000-193.000	Deferred Outflows - Assumptions	24,185	-
	590-000-193.000	Deferred Outflows - Assumptions	21,553	-
	581-581-719.000	Employee Fringe Benefits	20,642	-
	590-558-719.000	Employee Fringe Benefits	18,396	-
	582-000-192.000	Deferred Outflows - Experience	18,344	-
	591-000-192.000	Deferred Outflows - Experience	7,711	-
	581-000-192.000	Deferred Outflows - Experience	3,188	-
	590-000-192.000	Deferred Outflows - Experience	2,841	-
	582-000-300.000	Net Pension Liability	-	446,616
	591-000-300.000	Net Pension Liability	-	187,735
	581-000-300.000	Net Pension Liability	-	77,620
	590-000-300.000	Net Pension Liability	-	69,175
	582-000-190.000	Deferred Outflows - Contributions	-	3,622
	591-000-190.000	Deferred Outflows - Contributions	-	1,523
	581-000-190.000	Deferred Outflows - Contributions	-	630
	590-000-190.000	Deferred Outflows - Contributions	-	560
	<i>To record change in net pension liability and related deferred amounts.</i>			

CITY OF CHARLEVOIX, MICHIGAN

Attachment A - Fund Audit Adjustments
 For the March 31, 2016 Audit

Entry #	Account Number	Account Description	Debit	Credit
15	101-965-964.000	Refunds & Rebates	\$ 55,647	-
	406-000-202.000	Accounts Payable	10,317	-
	101-000-202.000	Accounts Payable	-	55,647
	406-406-964.000	Refunds & Rebates	-	10,317

To record tax tribunal payable at March 31, 2016.

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CITY OF CHARLEVOIX

Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the March 31, 2016 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 "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

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.

CITY OF CHARLEVOIX

■ Attachment B - Upcoming Changes in Accounting Standards / Regulations For the March 31, 2016 Audit

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.

GASB 78 ■ Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans *Effective 12/15/2016 (your FY 2017)*

This standard is an amendment to GASB 68, and provides guidance to governments that participate in non-governmental cost-sharing pension plans. We do not expect this standard to have any significant effect on the City.

GASB 79 ■ Certain External Investment Pools and Pool Participants *Effective 06/15/2016 (your FY 2017)*

This standard essentially extends the guidance previously available to governments investing in 2a7-like external investment pools to carry investments at amortized cost, as an approximation of fair value. The SEC amended Rule 2a7 in 2014, so the GASB replicated its prior provisions in this statement. We do not expect this standard to have any significant effect on the City.

GASB 80 ■ Blending Requirements for Certain Component Units *Effective 06/15/2017 (your FY 2018)*

This standard is an amendment to GASB 14, *The Financial Reporting Entity*, and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the City.

GASB 81 ■ Irrevocable Split-Interest Agreements *Effective 12/15/2017 (your FY 2018)*

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the City.

GASB 82 ■ Pension Issues *Effective 06/15/2017 (your FY 2018)*

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. We do not expect this standard to have any significant effect on the City.



CITY OF CHARLEVOIX

Attachment C - Management Representations For the March 31, 2016 Audit

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



CITY OF CHARLEVOIX

210 STATE ST. CHARLEVOIX, MICH. 49720

September 30, 2016

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, 2016, 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 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 30, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 1, 2016, 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, including those measured at fair value, 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 and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
22. We are responsible for the fair presentation of the City's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the City's participation in the plan, and have reviewed the information provided by MERS for inclusion in the City's financial statements.

Information Provided

23. 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.
- 24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 25. 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.
- 26. 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.
- 27. 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.
- 28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
- 29. 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.
- 30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- 31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- 32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
- 33. 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.
- 34. 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.
- 35. 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.
- 36. 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.
- 37. 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

38. 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

39. 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.



Mark Heydlauff, City Manager



Kelly McGinn, Treasurer

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Adjustments Passed (SOAP)

For the March 31, 2016 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
2016					
Airport Fund					
Overstatement of fuel inventory	\$ 13,323	\$ -		\$ -	\$ (13,323)
Overstatement of hanger rentals	20,408	(20,408)	-	-	-
	<u>33,731</u>	<u>(20,408)</u>	<u>-</u>	<u>-</u>	<u>(13,323)</u>
Electric Fund					
Overstatement of inventory	10,715	-	-	-	(10,715)
	<u>10,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,715)</u>
Business-type activities					
Cumulative effect of items noted above	<u>\$ 44,446</u>	<u>\$ (20,408)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,038)</u>
Misstatement as a percentage of					
total assets - business type activities	0.09%	-0.04%	0.00%	0.00%	-0.05%