

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2017

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

Table of Contents

	<u>Page</u>
List of Elected and Appointed Officials	1
Independent Auditors' Report	2-4
Management's Discussion and Analysis	5-14
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16-17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	22-24
Statement of Net Position - Proprietary Funds	25-26
Reconciliation of Net Position of Enterprise Funds to Net Position of Business-Type Activities	27
Statement of Revenues, Expenses and Change in Fund Net Position - Proprietary Funds	28-29
Reconciliation of Change in Fund Net Position of Enterprise Funds to Change in Net Position of Business-Type Activities	30
Statement of Cash Flows - Proprietary Funds	31-34
Statement of Fiduciary Assets and Liabilities - Agency Funds	35
Notes to the Financial Statements	36-63
Required Supplementary Information	
MERS Agent Multiple-Employer Plan:	
Schedule of Changes in the City's Net Pension Liability and Related Ratios	64
Schedule of the Net Pension Liability	65
Schedule of Contributions	66

CITY OF CHARLEVOIX, MICHIGAN

Table of Contents

Combining and Individual Fund Financial Statements	
Combining Balance Sheet - Nonmajor Governmental Funds	67-68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	69-70
Combining Statement of Net Position - Internal Service Funds	71
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Internal Service Funds	72
Combining Statement of Cash Flows - Internal Service Funds	73-74
Balance Sheet and Statement of Net Position - Downtown Development Authority Component Unit	75
Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities - Downtown Development Authority Component Unit	76
Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	77-78
Schedule of Finding and Responses	79-80



CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

Mayor	Luther Kurtz
Council Member	Aaron Hagen
Council Member	Janet Kalbfell
Council Member	Leon Perron
Council Member	Tom Oleksy
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	Lindsey Dotson
Airport Manager	Matt Wyman
Harbormaster	Hal Evans
Recreation Director	Thomas Kirinovic
Director of Golf	Tom Heid

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INDEPENDENT AUDITORS' REPORT

September 25, 2017

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, 2017, 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 of Charlevoix, as of March 31, 2017, 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.

Restatement of Beginning Net Position

As described in Note 19 to the financial statements, the beginning net position of the business-type activities and the Electric Utility Fund, were restated to correct errors presented in the prior year financial statements that improperly excluded funds held in trust by the Michigan Public Power Agency. Our opinion is not modified with respect to this matter.

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 25, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

As management of the City of Charlevoix, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2017.

Financial Highlights

- The City's total net position increased to approximately \$64,222,000 at the end of the current fiscal year compared to approximately \$62,068,000 at the end of the prior period (as restated for GASB 68). Net position of governmental activities decreased by approximately \$693,000. Net position of business-type activities increased by approximately \$2,847,000.
- The assets and deferred outflows of resources of the City (primary government) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$64,222,000 (net position). Of this amount, approximately \$10,647,000 (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 \$2,154,000.
- At March 31, 2017, the City's governmental funds reported combined ending fund balances of approximately \$4,086,000, a decrease of approximately \$2,057,000 from the prior year. Approximately 40% of this total amount or approximately \$1,650,000 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 \$1,650,000 or 51% 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 within the basic financial statements 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 and deferred inflows of resources by approximately \$64,222,000 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 (82 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets and deferred outflows						
Current and other assets	\$ 5,313,003	\$ 7,288,317	\$ 13,479,005	\$ 12,180,476	\$ 18,792,008	\$ 19,468,793
Capital assets, net	28,889,918	27,586,280	39,573,938	38,066,335	68,463,856	65,652,615
Deferred outflows	404,071	690,167	560,735	807,629	964,806	1,497,796
	<u>34,606,992</u>	<u>35,564,764</u>	<u>53,613,678</u>	<u>51,054,440</u>	<u>88,220,670</u>	<u>86,619,204</u>
Liabilities and deferred inflows						
Other liabilities	323,274	335,180	795,803	1,470,770	1,119,077	1,805,950
Long-term liabilities	3,983,852	4,201,166	13,683,260	13,268,487	17,667,112	17,469,653
Net pension liability	2,685,441	2,800,186	2,383,618	2,475,440	5,069,059	5,275,626
Deferred inflows	79,692	-	63,770	-	143,462	-
	<u>7,072,259</u>	<u>7,336,532</u>	<u>16,926,451</u>	<u>17,214,697</u>	<u>23,998,710</u>	<u>24,551,229</u>
Net position						
Net investment in capital assets	26,453,531	27,426,963	26,070,223	24,995,347	52,523,754	52,422,310
Restricted	705,738	659,107	682,387	-	1,388,125	659,107
Unrestricted	375,464	142,162	9,934,617	8,844,396	10,310,081	8,986,558
Total net position	<u>\$ 27,534,733</u>	<u>\$ 28,228,232</u>	<u>\$ 36,687,227</u>	<u>\$ 33,839,743</u>	<u>\$ 64,221,960</u>	<u>\$ 62,067,975</u>

Current and other assets of governmental activities decreased by approximately \$2,000,000 primarily due to the use of proceeds from issuance of debt received in 2016 being used for capital expenditures in 2017.

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	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 856,227	\$ 849,010	\$ 10,607,484	\$ 10,158,358	\$ 11,463,711	\$ 11,007,368
Operating grants and contributions	434,666	469,271	369,656	349,015	804,322	818,286
Capital grants and contributions	-	871,200	1,410,025	1,687,059	1,410,025	2,558,259
General revenues						
Property taxes	2,985,220	2,984,918	-	-	2,985,220	2,984,918
State shared revenue	249,525	235,105	-	-	249,525	235,105
Other revenues	7,378	7,728	-	-	7,378	7,728
Unrestricted investment earnings	12,722	7,955	-	-	12,722	7,955
Total revenues	4,545,738	5,425,187	12,387,165	12,194,432	16,932,903	17,619,619
Expenses:						
Legislative	56,227	61,537	-	-	56,227	61,537
General government	646,601	683,651	-	-	646,601	683,651
Public safety	1,219,180	1,220,058	-	-	1,219,180	1,220,058
Public works	915,039	855,604	-	-	915,039	855,604
Health and welfare	385,795	415,473	-	-	385,795	415,473
Recreation and culture	1,028,411	993,149	-	-	1,028,411	993,149
Interest expense	108,454	-	-	-	108,454	-
Electric utility	-	-	5,479,757	5,342,828	5,479,757	5,342,828
Sewage disposal utility	-	-	1,356,738	1,339,618	1,356,738	1,339,618
Water utility	-	-	1,121,636	1,307,295	1,121,636	1,307,295
Marina	-	-	1,035,232	1,142,134	1,035,232	1,142,134
Airport	-	-	1,425,848	1,478,509	1,425,848	1,478,509
Total expenses	4,359,707	4,229,472	10,419,211	10,610,384	14,778,918	14,839,856

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Change in net position before transfers	\$ 186,031	\$ 1,195,715	\$ 1,967,954	\$ 1,584,048	\$ 2,153,985	\$ 2,779,763
Transfers	(879,530)	(487,690)	879,530	487,690	-	-
Change in net position	(693,499)	708,025	2,847,484	2,071,738	2,153,985	2,779,763
Net position:						
Beginning of year	28,228,232	29,395,242	33,839,743	33,425,582	62,067,975	62,820,824
Restatement for:						
Implementation of GASB 68	-	(1,875,035)	-	(1,657,577)	-	(3,532,612)
	<u>28,228,232</u>	<u>27,520,207</u>	<u>33,839,743</u>	<u>31,768,005</u>	<u>62,067,975</u>	<u>59,288,212</u>
End of year	<u>\$ 27,534,733</u>	<u>\$ 28,228,232</u>	<u>\$ 36,687,227</u>	<u>\$ 33,839,743</u>	<u>\$ 64,221,960</u>	<u>\$ 62,067,975</u>
						Concluded

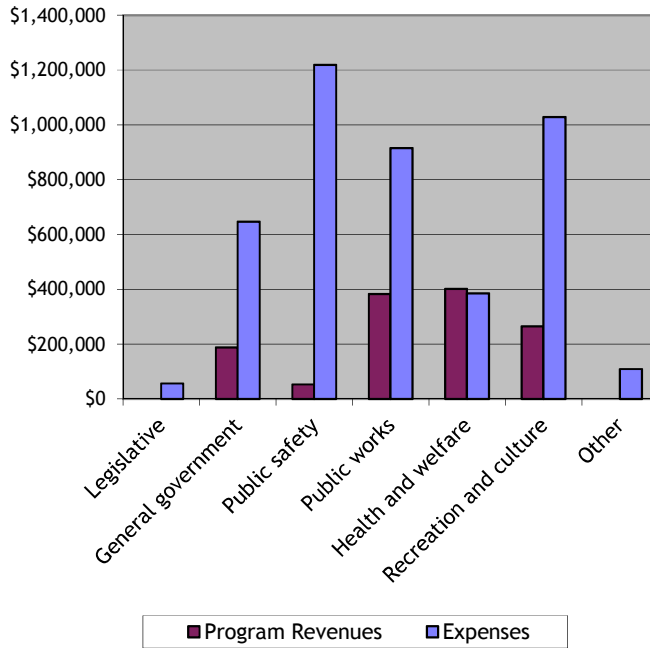
Governmental Activities. Governmental activities decreased the City's net position by approximately \$693,000. Key elements of this decrease are as follows:

- Total governmental activities revenue decreased by approximately \$879,000 or 16.20% compared to prior year, with the most significant decrease from a reduction in a capital grant contribution passed through MDOT in the amount of \$871,200 in the previous year.
- Total expenses for governmental activities were consistent with the previous year with an increase of approximately \$130,000. The most significant increase in governmental activity expenses related to interest expense reported on outstanding debt of approximately \$108,000 related to the 2016 capital improvement bonds.

CITY OF CHARLEVOIX, MICHIGAN

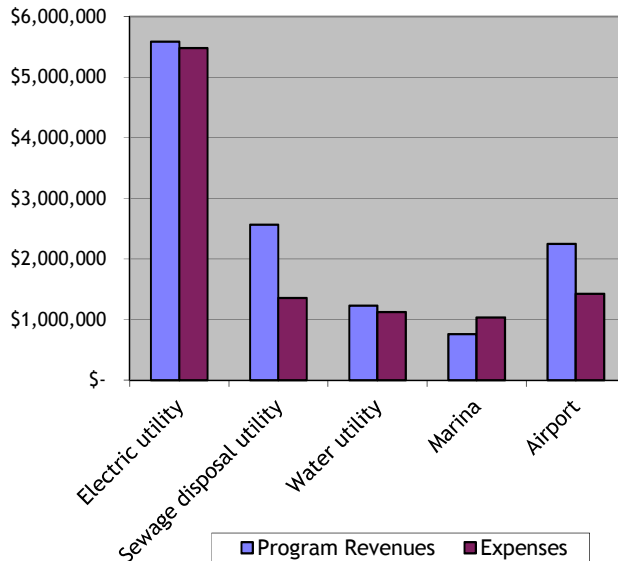
Management's Discussion and Analysis

Program Revenues and Expenses - Governmental Activities



Business-type Activities. Net position of the business-type activities increased by approximately \$2,847,000, an increase of approximately \$784,000 from the change in net position for fiscal year 2016. The increase was attributable to an increase in revenues in excess of expenses of approximately \$392,000 as a result of adjustment of sewer and water rates in connection with improvements at the waste water and water treatment plant. In addition, transfers increased by approximately \$392,000 as a result of infrastructure work related to the infrastructure bond. Net position of business-type activities and the Electric Utility Fund for 2016 was adjusted and increased approximately \$375,000 to record funds held in trust for the City by the Michigan Public Power Agency that were improperly omitted from the City's financial statements in previous periods.

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 \$4,086,000, a decrease of approximately \$2,057,000 from prior year. This decrease was attributable primarily to the effect of the activity related to the prior year issuance of the 2016 Capital Improvement Bonds and the Infrastructure Improvements fund's receipt of bond proceeds of approximately \$4,025,000 reported as other financing sources resulting in a net increase in the Infrastructure Improvement Fund's fund balance of approximately \$3,500,000 compared to a decrease in that same fund's fund balance in the current period of approximately \$2,500,000 related to the use of bond proceeds. A significant portion of the fund balances, approximately \$1,650,000 constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

General Fund Budgetary Highlights

During the year, General Fund revenues were higher than budgetary estimates by approximately \$11,000 and expenditures were lower than budgetary estimates by approximately \$236,000. Expenditures were lower than budgeted due to several factors including a tennis court resurfacing project being completed for less than expected, cost savings related to outsourcing of Planning Department and Fire Department activities, labor cost savings related to not providing life-guards on beaches and a budgeted play-ground project not being completed until after year-end. However, General Fund transfers to other City funds were under budget by approximately \$38,000 and transfers in from other funds were over budget by approximately \$22,000. This resulted in an increase in the fund balance of approximately \$230,000 compared to a budgeted decrease of approximately \$77,000. 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 \$7,599,000 and the net investment in capital assets was approximately \$26,166,000. The changes in enterprise fund net positions were as follows:

- Electric utility activities decreased the City's net position by approximately \$356,000 with charges for services exceeding expenses by approximately \$59,000, approximately \$24,000 in interest revenues, and offsetting net transfer out of approximately \$439,000. The significant amount of transfers out related to approximately \$400,000 transferred to the motor pool for the purchase of a Pole Cat and Trencher.
- Sewage disposal utility activities increased the City's net position by approximately \$1,790,000. This was attributable mainly to the excess of charges for services over the expenses and net transfers in of approximately \$1,215,000 and \$599,000, respectively offset by nonoperating expenses of approximately \$224,000. Transfers in related to the cost of capitalizing infrastructure work that was performed through the infrastructure bonds.
- Water utility activities increased the City's net position by approximately \$585,000 due to charges for services exceeding expenses by approximately \$93,000 and transfers in of approximately \$492,000 related to capitalizing infrastructure work that was performed through the infrastructure bonds.
- Marina activities negatively impacted the City's net position by approximately \$284,000 primarily due to depreciation expense of approximately \$658,000 and the Marina's contribution to the Marina / East Park debt obligations of approximately \$8,000.
- Airport activities increased the City's net position by approximately \$867,000, primarily due to the City receiving \$1,210,000 in capital grants and contributions for the terminal apron rehabilitation project, part of which is offset by depreciation expense of approximately \$381,000.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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, 2017, amounted to approximately \$68,464,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

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

- Wastewater treatment plant improvements, approximately \$10,600,000.
- Infrastructure and other improvements: Airport, St. Mary's, Wood, Green, E. Upright, Alice, Nichols, and Burns, approximately \$2,800,000.
- Airport Friction Improvements and Taxiway A. Rehabilitation Design, approximately \$300,000.
- Vehicle, equipment and software purchases, approximately \$400,000.
- Other improvements including Electric and water utility system improvements, approximately \$550,000.

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
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	-	9,515,558
Land improvements	1,594,587	1,691,280	12,488,981	13,432,590	14,083,568	15,123,870
Infrastructure	5,440,972	4,046,230	-	-	5,440,972	4,046,230
Buildings and improvements	3,225,987	3,395,369	15,297,641	3,687,980	18,523,628	7,083,349
System improvements	-	-	9,860,562	9,356,959	9,860,562	9,356,959
Machinery and equipment	582,851	602,286	357,220	503,714	940,071	1,106,000
Vehicles	1,112,724	918,318	-	-	1,112,724	918,318
Total capital assets, net	\$ 28,889,918	\$ 27,586,280	\$ 39,573,938	\$ 38,066,335	\$ 68,463,856	\$ 65,652,615

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 \$4,226,000, including bond premium, and capital improvement bonds with a balance of \$3,816,000, including bond premium. The City has pledged its full faith and credit towards the above obligations. Additionally, the City issued revenue bonds to fund the wastewater treatment plant improvement project. During fiscal year 2017, the City issued an additional amount of approximately \$757,000 for the wastewater treatment plant improvement project. The outstanding balance at fiscal year end amounted to approximately \$9,458,000.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
2016 Capital improvement bonds	\$ 3,420,000	\$ 3,600,000	\$ -	\$ -	\$ 3,420,000	\$ 3,600,000
Marina limited tax general obligation bonds	-	-	3,805,000	4,105,000	3,805,000	4,105,000
Sewage disposal utility fund revenue bonds	-	-	9,457,599	8,700,760	9,457,599	8,700,760
Deferred amounts: Issuance premiums	396,789	425,131	420,661	462,727	817,450	887,858
Compensated absences	167,063	176,035	-	-	167,063	176,035
Total	\$ 3,983,852	\$ 4,201,166	\$ 13,683,260	\$ 13,268,487	\$ 17,667,112	\$ 17,469,653

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 \$24,438,694, which is significantly in excess of the City's outstanding general obligation debt.

In addition, 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, 2016, the City's plan is 62% funded, compared to 60% reported for the previous year.

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 2017-18 fiscal year:

- The unemployment rate for Michigan is currently 3.7% and the national average rate is 4.3%.
- The local, state and national economies continue to slowly improve. The City's taxable values have stabilized as foreclosures have decreased and new construction projects within the City have started to increase.
- The tax collection rate for the 2018 fiscal year are expected to be comparable to fiscal year 2017 at 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 2017 tax year, the operating millage of 9.05 mills remained the same as the 2016 tax year to enable the same level of service to taxpayers provided by the General Fund. The infrastructure millage remained at 2.0459 mills. The refuse millage (PA 213) remained at 1.0 mills. Overall, the 2017 tax rates remained consistent as 2016.
- Sewer rates charged for services in fiscal year 2018 increased 2% from the fiscal year 2017 rates.
- Water rates charged for services in fiscal year 2018 were increased 15% from the fiscal year 2017 rates.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

- Electric rates for fiscal year 2018 remained unchanged from fiscal year 2017.
- 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 2017.
- The employee fringe benefit fund rates increased only 1.0% for all funds for 2017/18 due to slight increases in benefit costs.

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.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 4,609,985	\$ 8,101,485	\$ 12,711,470	\$ 663,894
Cash at fiscal agent	66,500	508,227	574,727	-
Investments	876,852	1,906,520	2,783,372	50,000
Deposit held by Michigan Public Power Agency	-	382,387	382,387	-
Receivables, net	364,237	1,242,268	1,606,505	2,721
Internal balances	(655,186)	655,186	-	-
Other assets	50,615	382,932	433,547	325
Restricted investments	-	300,000	300,000	-
Capital assets not being depreciated	16,932,797	1,569,534	18,502,331	923,071
Capital assets being depreciated, net	11,957,121	38,004,404	49,961,525	2,538,902
Total assets	34,202,921	53,052,943	87,255,864	4,178,913
Deferred outflows of resources				
Deferred loss on bond refunding	-	179,545	179,545	-
Deferred pension amounts	404,071	381,190	785,261	-
Total deferred outflows of resources	404,071	560,735	964,806	-
Liabilities				
Accounts payable and accrued liabilities	307,028	774,449	1,081,477	38,835
Unearned revenue	16,246	21,354	37,600	4,753
Long-term liabilities:				
Due within one year	350,713	742,066	1,092,779	-
Due in more than one year	3,633,139	12,941,194	16,574,333	-
Net pension liability	2,685,441	2,383,618	5,069,059	-
Total liabilities	6,992,567	16,862,681	23,855,248	43,588
Deferred inflows of resources				
Deferred pension amounts	79,692	63,770	143,462	-
Net position				
Net investment in capital assets	26,453,531	26,070,223	52,523,754	3,461,973
Restricted for:				
Perpetual care	418,278	-	418,278	-
Street improvements	287,460	-	287,460	-
Capital projects	-	300,000	300,000	-
Energy purchases	-	382,387	382,387	-
Downtown development	-	-	-	673,352
Unrestricted	375,464	9,934,617	10,310,081	-
Total net position	\$ 27,534,733	\$ 36,687,227	\$ 64,221,960	\$ 4,135,325

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2017

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 56,227	\$ -	\$ -	\$ -	\$ (56,227)
General government	646,601	183,399	4,527	-	(458,675)
Public safety	1,219,180	24,905	27,668	-	(1,166,607)
Public works	915,039	100	382,922	-	(532,017)
Health and welfare	385,795	401,680	-	-	15,885
Recreation and culture	1,028,411	246,143	19,549	-	(762,719)
Interest	108,454	-	-	-	(108,454)
Total governmental activities	4,359,707	856,227	434,666	-	(3,068,814)
Business-type activities:					
Electric utility	5,479,757	5,559,494	23,583	-	103,320
Sewage disposal utility	1,356,738	2,356,591	8,167	200,025	1,208,045
Water utility	1,121,636	1,228,569	1,095	-	108,028
Marina	1,035,232	423,549	336,811	-	(274,872)
Airport	1,425,848	1,039,281	-	1,210,000	823,433
Total business-type activities	10,419,211	10,607,484	369,656	1,410,025	1,967,954
Total primary government	\$ 14,778,918	\$ 11,463,711	\$ 804,322	\$ 1,410,025	\$ (1,100,860)
Component unit					
Downtown Development Authority	\$ 751,405	\$ 80,191	\$ 49,127	\$ -	\$ (622,087)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net revenue (expense)	\$ (3,068,814)	\$ 1,967,954	\$ (1,100,860)	\$ (622,087)
General revenues:				
Property taxes	2,985,220	-	2,985,220	429,767
State shared revenues	249,525	-	249,525	-
Other revenue	7,378	-	7,378	-
Unrestricted investment earnings	12,722	-	12,722	-
Transfers - internal activities	(879,530)	879,530	-	-
Total general revenues and transfers	2,375,315	879,530	3,254,845	429,767
Change in net position	(693,499)	2,847,484	2,153,985	(192,320)
Net position, beginning of year, as restated (Note 19)	28,228,232	33,839,743	62,067,975	4,327,645
Net position, end of year	\$ 27,534,733	\$ 36,687,227	\$ 64,221,960	\$ 4,135,325

Concluded

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

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FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet

Governmental Funds

March 31, 2017

	General Fund	Infrastructure Improvement Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,138,208	\$ 1,434,905	\$ 602,868	\$ 3,175,981
Cash at fiscal agent	-	-	66,500	66,500
Investments	400,085	-	276,766	676,851
Accounts receivable, net	133,117	117	674	133,908
Taxes receivable	50,781	10,169	10,489	71,439
Interest receivable	1,253	-	770	2,023
Other assets	3,930	-	-	3,930
Due from other governmental units	55,221	-	100,531	155,752
Total assets	\$ 1,782,595	\$ 1,445,191	\$ 1,058,598	\$ 4,286,384
Liabilities				
Accounts payable	\$ 71,210	\$ 64,789	\$ 4,892	\$ 140,891
Accrued liabilities	41,907	-	1,798	43,705
Unearned revenue	15,508	-	604	16,112
Total liabilities	128,625	64,789	7,294	200,708
Fund balances				
Nonspendable	3,930	-	418,278	422,208
Restricted	-	1,380,402	287,460	1,667,862
Assigned	-	-	345,566	345,566
Unassigned	1,650,040	-	-	1,650,040
Total fund balances	1,653,970	1,380,402	1,051,304	4,085,676
Total liabilities and fund balances	\$ 1,782,595	\$ 1,445,191	\$ 1,058,598	\$ 4,286,384

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
March 31, 2017

Fund balances - total governmental funds	\$ 4,085,676
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	11,957,121
Capital assets accounted for in internal service funds, net	(1,290,306)
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	2,775,583
Net position allocated to business-type activities from governmental activities internal service funds	(655,186)
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	(2,685,441)
Deferred outflows of resources related to the net pension liability	404,071
Deferred inflows of resources related to the net pension liability	(79,692)
Certain non-current 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	(28,101)
Interest payable on long-term debt	(65,000)
Bonds payable	<u>(3,816,789)</u>
Net position of governmental activities	<u>\$ 27,534,733</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, 2017

	General Fund	Infrastructure Improvement Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,302,547	\$ 459,413	\$ 223,260	\$ 2,985,220
State revenue	250,945	-	385,968	636,913
Licenses and permits	6,374	-	-	6,374
Charges for services	689,254	-	3,375	692,629
Fines and forfeitures	21,715	-	-	21,715
Interest	4,171	2,613	2,849	9,633
Rents and royalties	120,245	-	5,220	125,465
Other revenue	63,430	-	3,553	66,983
Total revenues	3,458,681	462,026	624,225	4,544,932
Expenditures				
Current:				
Legislative	56,345	-	-	56,345
General government	496,898	-	3,501	500,399
Public safety	1,017,155	-	-	1,017,155
Public works	235,519	20,633	362,738	618,890
Health and welfare	387,919	-	-	387,919
Recreation and culture	991,355	-	-	991,355
Other expenditures	15,908	-	-	15,908
Debt service:				
Principal	-	-	180,000	180,000
Interest	-	-	71,796	71,796
Capital outlay	-	1,552,797	46,337	1,599,134
Total expenditures	3,201,099	1,573,430	664,372	5,438,901
Revenues over (under) expenditures	257,582	(1,111,404)	(40,147)	(893,969)
Other financing sources (uses)				
Transfers in	24,559	-	455,226	479,785
Transfers out	(52,512)	(1,374,008)	(216,541)	(1,643,061)
Total other financing sources (uses)	(27,953)	(1,374,008)	238,685	(1,163,276)
Net change in fund balances	229,629	(2,485,412)	198,538	(2,057,245)
Fund balances, beginning of year	1,424,341	3,865,814	852,766	6,142,921
Fund balances, end of year	\$ 1,653,970	\$ 1,380,402	\$ 1,051,304	\$ 4,085,676

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, 2017

Net change in fund balances - total governmental funds \$ (2,057,245)

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

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

Capital assets purchased/constructed	1,682,122
Depreciation expense	(556,306)

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	(7,242)
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Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payment	180,000
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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	417,154
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Change in net position from governmental activities accounted for in internal service funds charged to business-type activities.	(71,557)
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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	(251,043)
Change in interest expense, net of bond premium amortization	(36,658)
Net decrease in compensated absences - sick leave	7,276

Change in net position of governmental activities \$ (693,499)

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 2,292,300	\$ 2,313,887	\$ 2,263,177	\$ (50,710)
Payments in lieu of taxes	4,000	15,000	16,143	1,143
Interest and penalties on taxes	8,000	8,000	7,638	(362)
Tax collection fees	18,000	18,000	15,589	(2,411)
Total taxes	<u>2,322,300</u>	<u>2,354,887</u>	<u>2,302,547</u>	<u>(52,340)</u>
State revenue	<u>288,600</u>	<u>218,171</u>	<u>250,945</u>	<u>32,774</u>
Licenses and permits	<u>4,000</u>	<u>5,250</u>	<u>6,374</u>	<u>1,124</u>
Charges for services:				
Fire runs	24,900	24,885	24,905	20
Ambulance runs	245,000	245,000	326,230	81,230
Ambulance contracts	92,000	92,000	75,450	(16,550)
Cemetery	35,000	35,000	31,077	(3,923)
Golf course	109,300	93,200	93,034	(166)
Summer sports	6,200	7,825	7,766	(59)
Day camp	56,000	55,525	41,118	(14,407)
Winter sports	57,000	57,000	51,180	(5,820)
Basketball	-	565	565	-
Skate park	1,300	1,250	696	(554)
Parking	27,000	31,565	31,535	(30)
Other	5,500	5,700	5,698	(2)
Total charges for services	<u>659,200</u>	<u>649,515</u>	<u>689,254</u>	<u>39,739</u>
Fines and forfeitures	<u>21,000</u>	<u>22,075</u>	<u>21,715</u>	<u>(360)</u>
Interest	<u>2,500</u>	<u>2,500</u>	<u>4,171</u>	<u>1,671</u>
Rents and royalties:				
City hall	98,400	100,400	99,700	(700)
Boat launch/harbor building	23,500	20,545	20,545	-
Total rents and royalties	<u>121,900</u>	<u>120,945</u>	<u>120,245</u>	<u>(700)</u>
Other revenue	<u>55,000</u>	<u>74,806</u>	<u>63,430</u>	<u>(11,376)</u>
Total revenues	<u>3,474,500</u>	<u>3,448,149</u>	<u>3,458,681</u>	<u>10,532</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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Legislative:				
City council	\$ 44,400	\$ 52,974	\$ 56,345	\$ 3,371
General government:				
Mayor	10,300	9,894	4,161	(5,733)
City manager	100,000	100,840	86,512	(14,328)
Elections	24,400	24,448	17,455	(6,993)
Assessor	58,500	60,214	57,800	(2,414)
City attorney	45,100	45,100	31,796	(13,304)
City clerk	45,900	45,899	37,222	(8,677)
City treasurer	66,500	67,070	54,355	(12,715)
City hall and grounds	119,000	113,143	111,737	(1,406)
Cemetery	99,300	100,617	95,860	(4,757)
Total general government	569,000	567,225	496,898	(70,327)
Public safety:				
Police department	752,800	762,315	749,264	(13,051)
Parking law enforcement	7,200	7,392	6,463	(929)
Fire department	253,500	241,980	210,707	(31,273)
Planning department	106,400	46,927	50,721	3,794
Total public safety	1,119,900	1,058,614	1,017,155	(41,459)
Public works:				
Highways and streets	300	300	241	(59)
Leaf pick up	133,500	145,377	138,373	(7,004)
Waste collection	48,100	50,600	44,122	(6,478)
Brush pickup	53,200	52,249	52,783	534
Total public works	235,100	248,526	235,519	(13,007)

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (Continued)				
Health and welfare:				
Ambulance	\$ 432,700	\$ 422,849	\$ 387,919	\$ (34,930)
Recreation and culture:				
Parks	402,100	446,910	430,625	(16,285)
Recreation administration	55,800	57,344	49,445	(7,899)
City beaches	96,400	5,168	6,702	1,534
Ball fields	21,100	22,029	12,293	(9,736)
Day camp	67,700	68,533	54,732	(13,801)
Ice rink	7,600	7,288	2,207	(5,081)
Mt. McSauba ski hill	108,500	135,017	147,545	12,528
Basketball and volleyball	103,400	3,400	3,388	(12)
Golf course	259,700	267,839	254,639	(13,200)
Boat launch	21,000	21,145	14,705	(6,440)
Skate park	4,700	4,834	4,131	(703)
Community promotion	11,600	11,580	10,943	(637)
Total recreation and culture	1,159,600	1,051,087	991,355	(59,732)
Other expenditures	41,200	36,058	15,908	(20,150)
Total expenditures	3,601,900	3,437,333	3,201,099	(236,234)
Revenues over (under) expenditures	(127,400)	10,816	257,582	246,766
Other financing sources (uses)				
Transfers in	6,500	2,500	24,559	22,059
Transfers out	(90,700)	(90,700)	(52,512)	(38,188)
Total other financing sources (uses)	(84,200)	(88,200)	(27,953)	(60,247)
Net change in fund balance	(211,600)	(77,384)	229,629	307,013
Fund balance, beginning of year	1,424,341	1,424,341	1,424,341	-
Fund balance, end of year	\$ 1,212,741	\$ 1,346,957	\$ 1,653,970	\$ 307,013

Concluded

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position
 Proprietary Funds
 March 31, 2017

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,739,294	\$ 2,783,523	\$ 301,001	\$ 196,317
Investments	1,421,249	40,583	44,603	-
Cash at fiscal agent	-	502,327	-	5,900
Deposits held by Michigan Public Power Agency	382,387	-	-	-
Accounts receivable, net	857,849	249,375	104,499	2
Interest receivable	4,358	70	75	675
Other assets	1,310	1,440	1,310	228
Inventory	254,929	-	89,636	-
Total current assets	6,661,376	3,577,318	541,124	203,122
Noncurrent assets:				
Restricted investments	75,000	75,000	75,000	75,000
Advance to other funds	758,000	-	-	-
Capital assets, not being depreciated	187,613	345,125	13,730	-
Capital assets, net of accumulated depreciation	4,074,629	14,526,930	4,660,182	7,439,011
Total noncurrent assets	5,095,242	14,947,055	4,748,912	7,514,011
Total assets	11,756,618	18,524,373	5,290,036	7,717,133
Deferred outflows of resources				
Deferred charge on bond refunding	-	-	-	179,545
Deferred pension amounts	208,494	30,809	108,819	-
Total deferred outflows of resources	208,494	30,809	108,819	179,545
Liabilities				
Current liabilities:				
Accounts payable	350,856	40,174	29,992	5,716
Accrued liabilities	25,675	127,940	10,656	6,206
Customer deposits	68,831	-	-	87,989
Current portion of bonds and notes payable	-	385,000	-	357,066
Current portion of compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Total current liabilities	445,362	553,114	40,648	456,977
Noncurrent liabilities:				
Advance from other funds	-	-	-	643,000
Bonds payable, net of current portion	-	9,072,599	-	3,868,595
Compensated absences, net of current portion	-	-	-	-
Net pension liability	1,359,032	209,900	579,762	-
Total noncurrent liabilities	1,359,032	9,282,499	579,762	4,511,595
Total liabilities	1,804,394	9,835,613	620,410	4,968,572
Deferred inflows of resources				
Deferred pension amounts	39,093	6,468	10,533	-
Net position				
Net investment in capital assets	4,262,242	5,414,456	4,673,912	3,392,895
Restricted for:				
Capital projects	75,000	75,000	75,000	75,000
Energy purchases	382,387	-	-	-
Unrestricted (deficit)	5,401,996	3,223,645	19,000	(539,789)
Total net position	\$ 10,121,625	\$ 8,713,101	\$ 4,767,912	\$ 2,928,106

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

Airport	Total	Internal Service Funds
\$ 200	\$ 7,020,335	\$ 2,515,154
-	1,506,435	600,086
-	508,227	-
-	382,387	-
24,136	1,235,861	39
-	5,178	2,305
4,295	8,583	46,685
29,784	374,349	-
<u>58,415</u>	<u>11,041,355</u>	<u>3,164,269</u>
-	300,000	-
-	758,000	-
960,066	1,506,534	83,653
<u>7,256,636</u>	<u>37,957,388</u>	<u>1,316,669</u>
<u>8,216,702</u>	<u>40,521,922</u>	<u>1,400,322</u>
<u>8,275,117</u>	<u>51,563,277</u>	<u>4,564,591</u>
-	179,545	-
33,068	381,190	-
<u>33,068</u>	<u>560,735</u>	<u>-</u>
7,888	434,626	47,150
5,526	176,003	17,282
-	156,820	-
-	742,066	-
-	-	105,993
21,354	21,354	134
<u>34,768</u>	<u>1,530,869</u>	<u>170,559</u>
115,000	758,000	-
-	12,941,194	-
-	-	32,969
234,924	2,383,618	-
<u>349,924</u>	<u>16,082,812</u>	<u>32,969</u>
<u>384,692</u>	<u>17,613,681</u>	<u>203,528</u>
<u>7,676</u>	<u>63,770</u>	<u>-</u>
8,216,702	25,960,207	1,400,322
-	-	-
-	300,000	-
-	382,387	-
(300,885)	7,803,967	2,960,741
<u>\$ 7,915,817</u>	<u>\$ 34,446,561</u>	<u>\$ 4,361,063</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-Type Activities
March 31, 2017

Net position - total enterprise funds \$ 34,446,561

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	1,585,480
Net position allocated to business-type activities from governmental activities internal service funds	<u>655,186</u>

Net position of business-type activities \$ 36,687,227

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, 2017

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,559,494	\$ 2,356,591	\$ 1,228,569	\$ 423,549
Operating expenses				
Purchased power	3,033,237	-	-	-
Fuel purchases	-	-	-	-
Personnel services	1,243,110	534,953	564,844	103,350
Contractual services	254,773	99,689	82,548	25,142
Insurance	15,457	12,127	4,137	2,658
Building rental	51,200	23,600	23,600	-
Equipment rental	126,623	90,443	65,558	2,406
Supplies	78,053	59,300	59,897	11,221
Utilities	61,879	118,203	53,951	66,732
Repairs and maintenance	131,437	15,681	37,749	14,342
Depreciation	460,033	167,565	239,762	658,152
Miscellaneous	44,619	19,715	4,621	8,296
Total operating expenses	5,500,421	1,141,276	1,136,667	892,299
Operating income (loss)	59,073	1,215,315	91,902	(468,750)
Nonoperating revenues (expenses)				
Interest revenue	23,583	3,715	1,095	748
Gain on sale of capital assets	-	-	-	-
Other revenue	-	-	-	336,063
Interest expense	-	(227,832)	-	(143,712)
Total nonoperating revenues (expenses)	23,583	(224,117)	1,095	193,099
Income (loss) before transfers	82,656	991,198	92,997	(275,651)
Transfers				
Transfers in	95,216	648,150	491,673	-
Transfers out	(534,100)	(49,097)	-	(7,967)
Total transfers	(438,884)	599,053	491,673	(7,967)
Capital contributions				
Federal revenue	-	-	-	-
State revenue	-	200,025	-	-
Total capital contributions	-	200,025	-	-
Change in net position	(356,228)	1,790,276	584,670	(283,618)
Net position, beginning of year, as restated (Note 19)	10,477,853	6,922,825	4,183,242	3,211,724
Net position, end of year	\$ 10,121,625	\$ 8,713,101	\$ 4,767,912	\$ 2,928,106

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

Airport	Total	Internal Service Funds
\$ 1,039,281	\$ 10,607,484	\$ 2,811,228
-	3,033,237	-
601,166	601,166	-
286,244	2,732,501	2,202,718
27,401	489,553	48,299
10,875	45,254	-
-	98,400	-
729	285,759	-
8,686	217,157	79,060
27,731	328,496	9,902
9,183	208,392	86,904
380,638	1,906,150	272,595
76,927	154,178	3,971
1,429,580	10,100,243	2,703,449
(390,299)	507,241	107,779
-	29,141	7,541
-	-	3,378
-	336,063	1,581
(1,400)	(372,944)	-
(1,400)	(7,740)	12,500
(391,699)	499,501	120,279
49,155	1,284,194	580,500
-	(591,164)	(110,254)
49,155	693,030	470,246
1,210,000	1,210,000	-
-	200,025	-
1,210,000	1,410,025	-
867,456	2,602,556	590,525
7,048,361	31,844,005	3,770,538
\$ 7,915,817	\$ 34,446,561	\$ 4,361,063

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Change in Fund Net Position of Enterprise Funds
to Change in Net Position of Business-Type Activities
For the Year Ended March 31, 2017

Change in net position - total enterprise funds \$ 2,602,556

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	173,371
Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities	<u>71,557</u>

Change in net position of business-type activities \$ 2,847,484

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, 2017

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,580,831	\$ 2,626,166	\$ 1,217,590	\$ 476,284
Cash received from interfund services	-	-	-	-
Cash payments to employees	(1,115,803)	(496,883)	(530,282)	(108,819)
Cash payments to suppliers for goods and services	(3,671,326)	(743,405)	(346,386)	(131,449)
Net cash provided by operating activities	793,702	1,385,878	340,922	236,016
Cash flows from noncapital financing activities				
Other receipts	-	-	-	336,063
Transfers out	(532,500)	(49,097)	-	-
Net cash provided by (used in) noncapital financing activities	(532,500)	(49,097)	-	336,063
Cash flows from capital and related financing activities				
Federal receipts	-	-	-	-
State receipts	-	200,025	-	-
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(394,895)	(1,650,169)	(538,259)	-
Repayment on interfund advances	-	-	-	(25,000)
Transfers in	95,216	654,318	491,673	-
Proceeds from issuance of long-term debt	-	756,839	-	-
Bond principal payments	-	-	-	(300,000)
Bond and advance interest payments	-	(211,825)	-	(167,824)
Net cash used in capital and related financing activities	(299,679)	(250,812)	(46,586)	(492,824)
Cash flows from investing activities				
Purchase of investments	(7)	-	-	-
Receipt of amounts from advance to other funds	60,000	-	-	-
Interest received	22,435	3,700	1,079	106
Net cash provided by investing activities	82,428	3,700	1,079	106
Net increase (decrease) in cash and cash equivalents	43,951	1,089,669	295,415	79,361
Cash and cash equivalents, beginning of year	4,077,730	2,196,181	5,586	122,856
Cash and cash equivalents, including cash at fiscal agent and deposit held by MPPA, end of year	4,121,681	3,285,850	301,001	202,217
Cash at fiscal agent and deposit held by MPPA, end of year	(382,387)	(502,327)	-	(5,900)
Cash and cash equivalents, end of year	\$ 3,739,294	\$ 2,783,523	\$ 301,001	\$ 196,317

Airport	Total	Internal Service Funds
\$ 1,050,016	\$ 10,950,887	\$ -
-	-	2,811,583
(262,062)	(2,513,849)	(2,225,690)
(765,304)	(5,657,870)	(295,122)
<u>22,650</u>	<u>2,779,168</u>	<u>290,771</u>
-	336,063	1,581
-	(581,597)	(102,330)
-	(245,534)	(100,749)
1,210,000	1,210,000	-
-	200,025	-
-	-	3,378
(1,270,000)	(3,853,323)	(446,922)
(35,000)	(60,000)	-
47,555	1,288,762	580,500
-	756,839	-
-	(300,000)	-
(1,400)	(381,049)	-
<u>(48,845)</u>	<u>(1,138,746)</u>	<u>136,956</u>
-	(7)	-
-	60,000	-
-	27,320	6,128
-	87,313	6,128
(26,195)	1,482,201	333,106
<u>26,395</u>	<u>6,428,748</u>	<u>2,182,048</u>
200	7,910,949	2,515,154
-	(890,614)	-
<u>\$ 200</u>	<u>\$ 7,020,335</u>	<u>\$ 2,515,154</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended March 31, 2017

	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)	\$ 59,073	\$ 1,215,315	\$ 91,902	\$ (468,750)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	460,033	167,565	239,762	658,152
Changes in assets and liabilities that provided (used) cash:				
Accounts receivable	18,960	269,575	(10,979)	76,696
Other assets	(1,058)	(1,188)	(1,058)	-
Inventory	72,561	-	(18,390)	(228)
Deposits held by Michigan Public Power Agency	2,177	-	-	-
Accounts payable	52,272	(287,452)	5,123	(424)
Accrued liabilities	4,158	1,687	1,381	(5,469)
Net pension liability and related deferred amounts	123,149	20,376	33,181	-
Customer deposits	2,377	-	-	(23,961)
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Net cash provided by operating activities	<u>\$ 793,702</u>	<u>\$ 1,385,878</u>	<u>\$ 340,922</u>	<u>\$ 236,016</u>

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

Airport	Total	Internal Service Funds
\$ (390,299)	\$ 507,241	\$ 107,779
380,638	1,906,150	272,595
9,789	364,041	355
3,462	158	(890)
6,469	60,412	-
-	2,177	-
(11,082)	(241,563)	(66,096)
(1,455)	302	(21,276)
24,182	200,888	-
-	(21,584)	-
-	-	(1,696)
946	946	-
<u>\$ 22,650</u>	<u>\$ 2,779,168</u>	<u>\$ 290,771</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2017

Assets

Cash

\$ 71,798

Liabilities

Undistributed receipts

\$ 71,798

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 and 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 the City also has the ability to significantly influence the operations of the DDA. Therefore, the DDA is reported as a discretely presented component unit.

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*, a special revenue 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.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Additionally, the City reports the following fund types:

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

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

The *Debt Service Fund* accounts for financial resources that are assigned to service debt including principal, interest and other related costs.

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, 2017, 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 acquisition 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 or fund balance 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. The City reports deferred inflows of resources related to its pension plan for the difference between expected and actual experience.

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 his/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 \$360,244, and \$300,885 in the 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, 2017, 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			
Legislative:			
City council	\$ 52,974	\$ 56,345	\$ 3,371
Public safety:			
Planning department	46,927	50,721	3,794
Public works:			
Brush pickup	52,249	52,783	534
Recreation and culture:			
City beaches	5,168	6,702	1,534
Mt. McSauba ski hill	135,017	147,545	12,528

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, 2017:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 12,711,470	\$ 663,894	\$ 13,375,364
Cash at fiscal agent	574,727	-	574,727
Deposits held by Michigan Public Power Agency	382,387	-	382,387
Investments	2,783,372	50,000	2,833,372
Restricted investments	300,000	-	300,000
Total Statement of Net Position	\$ 16,751,956	\$ 713,894	17,465,850
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			71,798
Total			\$ 17,537,648
Deposits and investments			
Bank deposits (checking and savings accounts)			\$ 13,446,154
Certificate of Deposits:			
Maturing in less than 1 year			3,133,372
Cash with fiscal agent			574,727
Deposits held by Michigan Public Power Agency			382,387
Petty cash			1,008
Total			\$ 17,537,648

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 \$15,375,000 of the City's bank balance of approximately \$16,635,000 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. At year end, the City did not have any investments subject to interest rate risk.

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, 2017:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable, net	\$ 133,947	\$ 1,235,861	\$ 2,721
Taxes receivable	71,439	-	-
Interest receivable	3,099	6,407	-
Due from other governmental units	155,752	-	-
	<u>\$ 364,237</u>	<u>\$ 1,242,268</u>	<u>\$ 2,721</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, 2017, 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	3,675,419	3,764	-	-	3,679,183
Infrastructure	4,698,872	1,599,134	-	-	6,298,006
Buildings and improvements	7,425,504	4,681	-	-	7,430,185
Machinery and equipment	2,085,942	89,567	(26,925)	-	2,148,584
Vehicles	3,046,506	431,898	(25,774)	-	3,452,630
	<u>20,932,243</u>	<u>2,129,044</u>	<u>(52,699)</u>	<u>-</u>	<u>23,008,588</u>
Less accumulated depreciation for:					
Land improvements	(1,984,139)	(100,457)	-	-	(2,084,596)
Infrastructure	(652,642)	(204,392)	-	-	(857,034)
Buildings and improvements	(4,030,135)	(174,063)	-	-	(4,204,198)
Machinery and equipment	(1,483,656)	(109,002)	26,925	-	(1,565,733)
Vehicles	(2,128,188)	(237,492)	25,774	-	(2,339,906)
	<u>(10,278,760)</u>	<u>(825,406)</u>	<u>52,699</u>	<u>-</u>	<u>(11,051,467)</u>
Total capital assets being depreciated, net	<u>10,653,483</u>	<u>1,303,638</u>	<u>-</u>	<u>-</u>	<u>11,957,121</u>
Governmental activities capital assets, net	<u>\$ 27,586,280</u>	<u>\$ 1,303,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,889,918</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	9,515,558	-	-	(9,515,558)	-
	<u>11,085,092</u>	<u>-</u>	<u>-</u>	<u>(9,515,558)</u>	<u>1,569,534</u>
Capital assets being depreciated:					
Land improvements	20,558,572	29,587	-	-	20,588,159
Buildings and improvements	10,144,674	2,299,476	-	9,515,558	21,959,708
System improvements	26,116,779	1,069,907	-	54,536	27,241,222
Machinery and equipment	2,659,536	18,278	(15,861)	(54,536)	2,607,417
	<u>59,479,561</u>	<u>3,417,248</u>	<u>(15,861)</u>	<u>9,515,558</u>	<u>72,396,506</u>
Less accumulated depreciation for:					
Land improvements	(7,125,982)	(973,196)	-	-	(8,099,178)
Buildings and improvements	(6,456,694)	(205,373)	-	-	(6,662,067)
System improvements	(16,759,820)	(620,840)	-	-	(17,380,660)
Machinery and equipment	(2,155,822)	(110,236)	15,861	-	(2,250,197)
	<u>(32,498,318)</u>	<u>(1,909,645)</u>	<u>15,861</u>	<u>-</u>	<u>(34,392,102)</u>
Total capital assets being depreciated, net	<u>26,981,243</u>	<u>1,507,603</u>	<u>-</u>	<u>9,515,558</u>	<u>38,004,404</u>
Business-type activities capital assets, net	<u>\$ 38,066,335</u>	<u>\$ 1,507,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,573,938</u>

Depreciation expense for the year ended March 31, 2017 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 149,396
Public safety	61,735
Public works	239,739
Recreation and culture	104,007
Health and welfare	1,429
Capital assets held by the governmental activity	
internal service funds are charged to the various functions based on their usage of the assets	<u>269,100</u>
	<u>\$ 825,406</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Depreciation of business-type activities by function	
Electric utility	\$ 460,033
Sewage disposal utility	167,565
Water utility	239,762
Marina	658,152
Airport	380,638
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	3,495
	\$ 1,909,645

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2017, 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	2,321,739	77,256	-	-	2,398,995
Buildings and improvements	3,897,817	-	-	-	3,897,817
Machinery and equipment	68,305	-	-	-	68,305
	6,287,861	77,256	-	-	6,365,117
Less accumulated depreciation for:					
Land improvements	(1,476,235)	(85,160)	-	-	(1,561,395)
Buildings and improvements	(2,114,014)	(89,673)	-	-	(2,203,687)
Machinery and equipment	(57,946)	(3,187)	-	-	(61,133)
	(3,648,195)	(178,020)	-	-	(3,826,215)
Total capital assets being depreciated, net	2,639,666	(100,764)	-	-	2,538,902
Component unit capital assets, net	\$ 3,562,737	\$ (100,764)	\$ -	\$ -	\$ 3,461,973

Depreciation expense for the component unit, included in the statement of activities, was \$178,020 for fiscal year 2017.

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, 2017:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 181,041	\$ 441,626	\$ 38,835
Accrued liabilities	60,987	176,003	-
Accrued interest	65,000	-	-
Customer deposits	-	156,820	-
	<u>\$ 307,028</u>	<u>\$ 774,449</u>	<u>\$ 38,835</u>

8. INTERFUND ADVANCES

The composition of interfund advances as of March 31, 2017, was as follows:

	Advance to Other Funds	Advance From Other Funds
Electric utility fund	\$ 758,000	\$ -
Marina fund	-	643,000
Airport fund	-	115,000
	<u>\$ 758,000</u>	<u>\$ 758,000</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 became due annually beginning in fiscal year 2012/13 with principal to be repaid over six years, however, the City did not begin making payments until fiscal year 2015/16. During fiscal year 2017, the Electric Utility Fund received principal and interest payments of \$35,000 and \$6,680, respectively, from the Marina Fund and principal and interest payments of \$25,000 and \$1,400, respectively, from the Airport Fund.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

For the year ended March 31, 2017, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 24,559	\$ 52,512
Infrastructure improvements fund	-	1,374,008
Nonmajor governmental funds	455,226	216,541
Electric utility fund	95,216	534,100
Sewage disposal utility fund	648,150	49,097
Water utility fund	491,673	-
Marina	-	7,967
Airport fund	49,155	-
Internal service funds	580,500	110,254
	<u>\$ 2,344,479</u>	<u>\$ 2,344,479</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, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	One Year
Primary Government					
Governmental activities:					
2016 Capital					
Improvement Bonds	\$ 3,600,000	\$ -	\$ (180,000)	\$ 3,420,000	\$ 190,000
Deferred amounts:					
Bond premiums	425,131	-	(28,342)	396,789	28,342
Compensated absences - sick leave	35,377	48,496	(55,772)	28,101	26,378
Compensated absences - vacation	140,658	144,644	(146,340)	138,962	105,993
Total governmental activities	4,201,166	193,140	(410,454)	3,983,852	350,713
Business-type activities:					
General obligation					
bonds	4,105,000	-	(300,000)	3,805,000	315,000
Revenue bonds	8,700,760	756,839	-	9,457,599	385,000
Total installment debt	12,805,760	756,839	(300,000)	13,262,599	700,000
Deferred amounts:					
Bond premiums	462,727	-	(42,066)	420,661	42,066
Total business-type activities	13,268,487	756,839	(342,066)	13,683,260	742,066
Total primary government	\$ 17,469,653	\$ 949,979	\$ (752,520)	\$ 17,667,112	\$ 1,092,779

Revenue bonds. In 2015, the City issued revenue bonds totaling \$9,900,000 to fund the improvements to the City's wastewater treatment plant. These are 20 year bonds that bear interest at the rate of 2.50%. The first principal payment was 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, 2017, the City has received bond proceeds in the amount of \$9,457,999, with \$756,839 received in fiscal 2017.

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Purpose	Matures	Interest Rates	Amount
Governmental activities			
2016 Capital Improvement bonds	October 2030	4.0% - 4.2%	\$ 3,420,000
Premium on bonds	October 2030		<u>396,789</u>
			<u>\$ 3,816,789</u>
Business-type activities			
Marina - limited tax general obligation bonds	April 2027	4.0% - 4.2%	\$ 295,000
Marina - 2016 refunding bonds	April 2027	2.0% - 4.0%	3,510,000
Premium on Marina refunding bonds			420,661
Sewer - revenue bonds	April 2036	2.5%	<u>9,457,599</u>
			<u>\$ 13,683,260</u>

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
2018	\$ 190,000	\$ 133,000	\$ 323,000	\$ 700,000	\$ 398,330	\$ 1,098,330
2019	195,000	129,200	324,200	725,000	394,488	1,119,488
2020	200,000	121,400	321,400	745,000	372,538	1,117,538
2021	210,000	113,400	323,400	770,000	349,338	1,119,338
2022	220,000	105,000	325,000	795,000	325,488	1,120,488
2023-2027	1,225,000	387,000	1,612,000	4,405,000	1,238,679	5,643,679
2028-2032	1,180,000	120,600	1,300,600	2,610,000	618,514	3,228,514
2033-2037	-	-	-	2,512,599	238,128	2,750,727
	<u>\$ 3,420,000</u>	<u>\$ 1,109,600</u>	<u>\$ 4,529,600</u>	<u>\$ 13,262,599</u>	<u>\$ 3,935,503</u>	<u>\$ 17,198,102</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

10. OPERATING LEASE AND COMMITMENT

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note payable for the construction of a storage building, which approximates \$35,000 as of March 31, 2017. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2018	\$ 27,894
2019	28,963
2020	30,070
2021	31,215
2022	32,401
2023-2027	206,325
2028	<u>46,697</u>
	<u>\$ 403,565</u>

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers’ compensation), as well as medical benefits provided to employees. During the year ended March 31, 2017, 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 2016 levy was assessed and equalized at \$244,386,939 (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 2016-17 was 9.0500 mills, with an additional 2.0459 mills levied for infrastructure improvements and an additional 1.0000 mill levied for refuse.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

13. DEFINED BENEFIT PENSION PLAN

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 2.5%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service. Member contributions range from 1% to 3% of covered wages as presented in the table below.

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>44</u>
Total membership	<u><u>90</u></u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Contributions. The City 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. Employer contributions are expressed as a percentage of payroll as summarized in the following table:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
Comm Workers	Defined Benefit	Open	12.97%	3.00%
Non Union	Defined Benefit	Open	14.64%	0.00%
Police Officers	Defined Benefit	Open	9.56%	3.00%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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%	0.51%
Diversifying strategies	10.00%	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2016, a decrease of .25% from the prior year. 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, 2015	\$ 13,228,386	\$ 7,952,760	\$ 5,275,626
Changes for the year:			
Service cost	165,666	-	165,666
Interest	1,028,535	-	1,028,535
Differences between expected and actual experience	(179,328)	-	(179,328)
Employer contributions	-	311,253	(311,253)
Employee contributions	-	46,738	(46,738)
Net investment income	-	880,516	(880,516)
Benefit payments, including refunds of employee contributions	(909,054)	(909,054)	-
Administrative expense	-	(17,408)	17,408
Other changes	(341)	-	(341)
Net changes	<u>105,478</u>	<u>312,045</u>	<u>(206,567)</u>
Balances at December 31, 2016	<u>\$ 13,333,864</u>	<u>\$ 8,264,805</u>	<u>\$ 5,069,059</u>

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 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 6,440,032	\$ 5,069,059	\$ 4,901,086

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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to

For the year ended March 31, 2017, the City recognized pension expense of \$623,892. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 51,283	\$ 143,462	\$ (92,179)
Changes in assumptions	389,026	-	389,026
Net difference between projected and actual earnings on pension plan investments	<u>272,729</u>	-	<u>272,729</u>
	713,038	143,462	569,576
Contributions subsequent to the measurement date	<u>72,223</u>	-	<u>72,223</u>
Total	<u>\$ 785,261</u>	<u>\$ 143,462</u>	<u>\$ 641,799</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, 2018. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended March 31,	Amount
2018	\$ 219,616
2019	219,616
2020	219,612
2021	<u>(89,268)</u>
Total	<u>\$ 569,576</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 \$18,187 to the Plan during the year ended March 31, 2017. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2017.

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,	Belle River		Combustion Turbine No. 1	
	Principal	Interest	Principal	Interest
2017	\$ 409,530	\$ 44,131	\$ 66,316	\$ 47,106
2018	431,063	22,631	69,620	43,790
2019	-	-	73,160	40,309
2020	-	-	76,700	36,651
2021	-	-	80,712	32,816
2022-2026	-	-	467,516	99,426
2027			108,088	5,404
Total	\$ 840,593	\$ 66,762	\$ 942,112	\$ 305,502

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Year Ended December 31,	Campbell Project Bank		AFEC Project	
	Principal	Interest	Principal	Interest
2017	\$ 193,936	\$ 28,361	\$ 18,734	\$ 48,695
2018	199,470	22,779	19,380	47,945
2019	204,213	18,181	20,349	47,073
2020	208,692	13,480	21,157	46,158
2021	213,699	8,671	22,126	45,205
2022-2026	218,442	3,753	127,910	208,800
2027-2031	-	-	162,471	174,349
2032-2036	-	-	207,205	129,474
2037-2041	-	-	264,377	72,239
2042-2043	-	-	125,163	9,464
Total	\$ 1,238,452	\$ 95,225	\$ 988,872	\$ 829,402

Year Ended December 31,	Total	
	Principal	Interest
2017	\$ 688,516	\$ 168,293
2018	719,533	137,145
2019	297,722	105,563
2020	306,549	96,289
2021	316,537	86,692
2022-2026	813,868	311,979
2027-2031	270,559	174,349
2032-2036	207,205	129,474
2037-2041	264,377	72,239
2042-2043	125,163	9,464
Total	\$ 4,010,029	\$ 1,291,487

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, 2017 and is reported as Deposit with the Michigan Public Power agency in the Statement of Net Position.

16. COMMITMENTS

The City has entered into several contracts for goods and services including certain infrastructure and capital improvement projects. The total commitment related to these various contracts is approximately \$3,200,000.

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, 2017, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,932,797	\$ 1,569,534	\$ 923,071
Capital assets being depreciated, net	11,957,121	38,004,404	2,538,902
	<u>28,889,918</u>	<u>39,573,938</u>	<u>3,461,973</u>
Less related debt:			
Noncurrent liabilities:			
Due within one year	(350,713)	(742,066)	-
Due in more than one year	(3,633,139)	(12,941,194)	-
Add back: compensated absences	167,063	-	-
Add back: deferred charge on bond refunding	-	179,545	-
Add back: unexpended bond proceeds	1,380,402	-	-
	<u>(2,436,387)</u>	<u>(13,503,715)</u>	<u>-</u>
Net investment in capital assets	<u>\$ 26,453,531</u>	<u>\$ 26,070,223</u>	<u>\$ 3,461,973</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	\$ -	\$ -	\$ 418,278	\$ 418,278
Prepays	3,930	-	-	3,930
Total nonspendable	3,930	-	418,278	422,208
Restricted:				
Special revenue funds:				
Major streets	-	-	126,495	126,495
Local streets	-	-	13,859	13,859
Capital project funds:				
Street improvements	-	1,380,402	147,106	1,527,508
Total restricted	-	1,380,402	287,460	1,667,862
Assigned:				
Capital project funds:				
Fire truck and ambulance	-	-	171,259	171,259
Industrial park	-	-	83,222	83,222
Mt. McSauba improvements	-	-	21,113	21,113
Debt service fund:				
Debt service infrastructure	-	-	69,972	69,972
Total assigned	-	-	345,566	345,566
Unassigned	1,650,040	-	-	1,650,040
Total fund balances, governmental funds	\$ 1,653,970	\$ 1,380,402	\$ 1,051,304	\$ 4,085,676

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

19. RESTATEMENT

During 2017, City management determined that amounts held by the Michigan Public Power Agency (MPPA) on behalf of the City, in a trust fund for the City's use, were improperly excluded from the City's financial statements. To correct this error, the City has increased deposits held by MPPA and beginning net position of the Electric Utility fund and business-type activities by \$384,564, the amount of cash held in trust for the City by MPPA at March 31, 2016. At March 31, 2017 the MPPA held \$382,387 on behalf of the City, which is restricted for energy payments made by the City to the MPPA and is reported as deposits held by the Michigan Public Power Agency within the 2017 financial statements. Due to improper exclusion of these amounts, the 2016 financial statements net position of the electric utility fund and business-type activities were understated by \$384,564 and the change in net position for the Electric Utility fund and business-type activity were understated by \$8,013.

20. SUBSEQUENT EVENT - COMMERCIAL FACILITIES EXEMPTION - TAX ABATEMENT

In April 2017, the City entered into a tax abatement with Celebrate Me Home LLC (the "Company") under the Commercial Facilities Exemption (CFT) PA 255 of 1978, as amended. The purpose of the exemption is to provide a tax incentive to businesses to establish themselves in the designated commercial redevelopment district. The Company has committed to investing approximately \$1.2 million in a construction project involving three separate buildings along the Van Pelt Alleyway located in Charlevoix Michigan. The first building will be a mixed-use, 2 story building with residential above, the second building will also be a mixed-use 2 story commercial building with residential above and the third building will be a single story that will be turned into a restaurant. The Company estimates that this specific abatement with the City will create 6 commercial spaces and 6 residential units. Under this agreement, the City agreed to abate 100% of the new taxes collected from this facility for a period of 12 years. The total amount of taxes to be abated has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended December 31	
	2017	2016
Total pension liability		
Service cost	\$ 165,666	\$ 167,849
Interest	1,028,535	976,917
Differences between expected and actual experience	(179,328)	85,473
Changes of assumptions	-	648,378
Benefit payments, including refunds of employee contributions	(909,054)	(815,464)
Other changes	(341)	-
Net change in total pension liability	105,478	1,063,153
Total pension liability, beginning of year	13,228,386	12,165,233
Total pension liability, end of year	13,333,864	13,228,386
Plan fiduciary net position		
Employer contributions	311,253	303,782
Employee contributions	46,738	53,025
Net investment income (loss)	880,516	(124,534)
Benefit payments, including refunds of employee contributions	(909,054)	(815,464)
Administrative expense	(17,408)	(18,424)
Net change in plan fiduciary net position	312,045	(601,615)
Plan fiduciary net position, beginning of year	7,952,760	8,554,375
Plan fiduciary net position, end of year	8,264,805	7,952,760
City's net pension liability	\$ 5,069,059	\$ 5,275,626
Plan fiduciary net position as a percentage of total pension liability	61.98%	60.12%
Covered payroll	\$ 2,444,252	\$ 2,601,560
City's net pension liability as a percentage of covered payroll	207.39%	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 Payroll	Net Pension Liability as Percentage of Covered Payroll
2017	\$ 13,333,864	\$ 8,264,805	\$ 5,069,059	61.98%	\$ 2,444,252	207.39%
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 Payroll	Contributions as Percentage of Covered Payroll
2017	\$ 318,731	\$ 318,731	\$ -	\$ 2,412,999	13.21%
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, open
Remaining amortization period	22 years
Asset valuation method	5 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.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2017

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 46,513	\$ -	\$ 171,250	\$ 83,214
Cash at fiscal agent	-	-	-	-
Investments	-	-	-	-
Accounts receivable	-	-	9	8
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governmental units	85,496	15,035	-	-
Total assets	\$ 132,009	\$ 15,035	\$ 171,259	\$ 83,222
Liabilities				
Accounts payable	\$ 3,892	\$ 1,000	\$ -	\$ -
Accrued liabilities	1,622	176	-	-
Unearned revenue	-	-	-	-
Total liabilities	5,514	1,176	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	126,495	13,859	-	-
Assigned	-	-	171,259	83,222
Total fund balances	126,495	13,859	171,259	83,222
Total liabilities and fund balances	\$ 132,009	\$ 15,035	\$ 171,259	\$ 83,222

Capital Projects Funds		Debt Service Fund	Permanent Fund	
Street Improvement	Mt. McSauba Improvements	Debt Service Infrastructure	Cemetery Care	Total
\$ 136,581	\$ 21,111	\$ 3,472	\$ 140,727	\$ 602,868
-	-	66,500	-	66,500
-	-	-	276,766	276,766
36	606	-	15	674
10,489	-	-	-	10,489
-	-	-	770	770
-	-	-	-	100,531
<u>\$ 147,106</u>	<u>\$ 21,717</u>	<u>\$ 69,972</u>	<u>\$ 418,278</u>	<u>\$ 1,058,598</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,892
-	-	-	-	1,798
-	604	-	-	604
-	604	-	-	7,294
-	-	-	418,278	418,278
147,106	-	-	-	287,460
-	21,113	69,972	-	345,566
<u>147,106</u>	<u>21,113</u>	<u>69,972</u>	<u>418,278</u>	<u>1,051,304</u>
<u>\$ 147,106</u>	<u>\$ 21,717</u>	<u>\$ 69,972</u>	<u>\$ 418,278</u>	<u>\$ 1,058,598</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended March 31, 2017

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	290,416	95,552	-	-
Charges for services	-	-	-	-
Interest	46	25	78	89
Rents and royalties	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>290,462</u>	<u>95,577</u>	<u>78</u>	<u>89</u>
Expenditures				
Current:				
General government	-	-	-	3,501
Public works	246,757	115,981	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	18,540	27,797	-	-
Total expenditures	<u>265,297</u>	<u>143,778</u>	<u>-</u>	<u>3,501</u>
Revenues over (under) expenditures	<u>25,165</u>	<u>(48,201)</u>	<u>78</u>	<u>(3,412)</u>
Other financing sources (uses)				
Transfers in	35,438	23,543	78,030	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>35,438</u>	<u>23,543</u>	<u>78,030</u>	<u>-</u>
Net change in fund balances	60,603	(24,658)	78,108	(3,412)
Fund balances, beginning of year	<u>65,892</u>	<u>38,517</u>	<u>93,151</u>	<u>86,634</u>
Fund balances, end of year	<u>\$ 126,495</u>	<u>\$ 13,859</u>	<u>\$ 171,259</u>	<u>\$ 83,222</u>

Capital Projects Funds		Debt Service Fund	Permanent Fund	
Street Improvement	Mt. McSauba Improvements	Debt Service Infrastructure	Cemetery Care	Total
\$ 223,260	\$ -	\$ -	\$ -	\$ 223,260
-	-	-	-	385,968
-	-	-	3,375	3,375
335	19	-	2,257	2,849
-	5,220	-	-	5,220
-	-	3,553	-	3,553
<u>223,595</u>	<u>5,239</u>	<u>3,553</u>	<u>5,632</u>	<u>624,225</u>
-	-	-	-	3,501
-	-	-	-	362,738
-	-	180,000	-	180,000
-	-	71,796	-	71,796
-	-	-	-	46,337
-	-	251,796	-	664,372
<u>223,595</u>	<u>5,239</u>	<u>(248,243)</u>	<u>5,632</u>	<u>(40,147)</u>
-	-	318,215	-	455,226
(216,541)	-	-	-	(216,541)
<u>(216,541)</u>	<u>-</u>	<u>318,215</u>	<u>-</u>	<u>238,685</u>
7,054	5,239	69,972	5,632	198,538
140,052	15,874	-	412,646	852,766
<u>\$ 147,106</u>	<u>\$ 21,113</u>	<u>\$ 69,972</u>	<u>\$ 418,278</u>	<u>\$ 1,051,304</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2017

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets:				
Cash and cash equivalents	\$ 754,300	\$ 679,704	\$ 1,081,150	\$ 2,515,154
Investments	100,001	100,000	400,085	600,086
Accounts receivable	-	39	-	39
Interest receivable	325	751	1,229	2,305
Other assets	45,990	695	-	46,685
Total current assets	900,616	781,189	1,482,464	3,164,269
Noncurrent assets:				
Capital assets, not being depreciated	-	20,653	63,000	83,653
Capital assets being depreciated, net	-	1,269,653	47,016	1,316,669
Total noncurrent assets	-	1,290,306	110,016	1,400,322
Total assets	900,616	2,071,495	1,592,480	4,564,591
Liabilities				
Current liabilities:				
Accounts payable	4,898	35,252	7,000	47,150
Accrued liabilities	13,215	4,067	-	17,282
Unearned revenue	134	-	-	134
Current portion of compensated absences	105,993	-	-	105,993
Total current liabilities	124,240	39,319	7,000	170,559
Noncurrent liabilities:				
Compensated absences, net of current portion	32,969	-	-	32,969
Total liabilities	157,209	39,319	7,000	203,528
Net position				
Net investment in capital assets	-	1,290,306	110,016	1,400,322
Unrestricted	743,407	741,870	1,475,464	2,960,741
Total net position	\$ 743,407	\$ 2,032,176	\$ 1,585,480	\$ 4,361,063

CITY OF CHARLEVOIX, MICHIGAN

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

Internal Service Funds

For the Year Ended March 31, 2017

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,109,906	\$ 701,322	\$ -	\$ 2,811,228
Operating expenses				
Personnel services	2,015,621	187,097	-	2,202,718
Contractual services	2,784	31,429	14,086	48,299
Supplies	-	79,060	-	79,060
Utilities	-	9,902	-	9,902
Repairs and maintenance	-	86,904	-	86,904
Depreciation	-	269,100	3,495	272,595
Miscellaneous	3,971	-	-	3,971
Total operating expenses	2,022,376	663,492	17,581	2,703,449
Operating income (loss)	87,530	37,830	(17,581)	107,779
Nonoperating revenues				
Interest revenue	1,300	1,789	4,452	7,541
Gain on sale of capital assets	-	3,378	-	3,378
Other revenue	-	1,581	-	1,581
Total nonoperating revenues	1,300	6,748	4,452	12,500
Income (loss) before transfers	88,830	44,578	(13,129)	120,279
Transfers				
Transfers in	-	394,000	186,500	580,500
Transfers out	(7,924)	(102,330)	-	(110,254)
Total transfers	(7,924)	291,670	186,500	470,246
Change in net position	80,906	336,248	173,371	590,525
Net position, beginning of year	662,501	1,695,928	1,412,109	3,770,538
Net position, end of year	\$ 743,407	\$ 2,032,176	\$ 1,585,480	\$ 4,361,063

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2017

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,110,300	\$ 701,283	\$ -	\$ 2,811,583
Cash payments to employees	(2,038,443)	(187,247)	-	(2,225,690)
Cash payments to suppliers for goods and services	(14,168)	(273,868)	(7,086)	(295,122)
Net cash provided by (used in) operating activities	57,689	240,168	(7,086)	290,771
Cash flows from noncapital financing activities				
Other receipts	-	1,581	-	1,581
Transfers in	-	394,000	186,500	580,500
Transfers out	-	(102,330)	-	(102,330)
Net cash provided by noncapital financing activities	-	293,251	186,500	479,751
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	3,378	-	3,378
Purchase of capital assets	-	(446,922)	-	(446,922)
Net cash used in capital and related financing activities	-	(443,544)	-	(443,544)
Cash flows from investing activities				
Interest received	1,019	1,288	3,821	6,128
Net increase in cash and cash equivalents	58,708	91,163	183,235	333,106
Cash and cash equivalents, beginning of year	695,592	588,541	897,915	2,182,048
Cash and cash equivalents, end of year	\$ 754,300	\$ 679,704	\$ 1,081,150	\$ 2,515,154

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2017

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 87,530	\$ 37,830	\$ (17,581)	\$ 107,779
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	269,100	3,495	272,595
Changes in operating assets and liabilities that provided (used) cash:				
Accounts receivable	394	(39)	-	355
Other assets	(195)	(695)	-	(890)
Accounts payable	(7,218)	(65,878)	7,000	(66,096)
Accrued liabilities	(21,126)	(150)	-	(21,276)
Accrued compensated absences	(1,696)	-	-	(1,696)
Net cash provided by (used in) operating activities	<u>\$ 57,689</u>	<u>\$ 240,168</u>	<u>\$ (7,086)</u>	<u>\$ 290,771</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position Downtown Development Authority Component Unit March 31, 2017

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 663,894	\$ -	\$ 663,894
Investments	50,000	-	50,000
Receivables	2,721	-	2,721
Other assets	325	-	325
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	2,538,902	2,538,902
Total assets	\$ 716,940	3,461,973	4,178,913
Liabilities			
Accounts payable	\$ 37,213	1,622	38,835
Accrued liabilities	1,622	(1,622)	-
Unearned revenue	4,753	-	4,753
Total liabilities	43,588	-	43,588
Fund balance			
Restricted	673,352	(673,352)	-
Total liabilities and fund balance	\$ 716,940		
Net position			
Net investment in capital assets		3,461,973	3,461,973
Restricted		673,352	673,352
Total net position		\$ 4,135,325	\$ 4,135,325

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, 2017

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 429,767	\$ -	\$ 429,767
Rents	80,191	-	80,191
Miscellaneous	49,127	-	49,127
	<hr/>	<hr/>	<hr/>
Total revenues	559,085	-	559,085
Expenditures / expenses			
Current:			
Other functions	650,641	100,764	751,405
	<hr/>	<hr/>	<hr/>
Change in fund balance / net position	(91,556)	(100,764)	(192,320)
Fund balance / net position, beginning of year	764,908	3,562,737	4,327,645
	<hr/>	<hr/>	<hr/>
Fund balance / net position, end of year	<u>\$ 673,352</u>	<u>\$ 3,461,973</u>	<u>\$ 4,135,325</u>

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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 25, 2017

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, 2017, 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 25, 2017.

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 responses, 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 responses as item 2017-001 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 responses as item 2017-002 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 responses. 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.



CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2017

2017-001 - 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 Responses

For the Year Ended March 31, 2017

2017-002 - 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.