

City of  
Cheboygan,  
Michigan



THE CITY OF  
CHEBOYGAN

Fiscal Year Ended  
June 30, 2014

Financial  
Statements



# CITY OF CHEBOYGAN, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

December 8, 2014

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Cheboygan, Michigan* (the "City"), as of and for the year ended June 30, 2014, 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 of 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 previously, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Cheboygan, Michigan* as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Major Street Special Revenue Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment plans 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 fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is 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 December 8, 2014, on our consideration of the City's internal control over financial reporting and on 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.

*Rehmann Lobson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF CHEBOYGAN, MICHIGAN

## Management's Discussion and Analysis

As management of the *City of Cheboygan, 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 June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2014 by \$22,731,683 (net position). Of this, \$3,367,659 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City continues to set aside funds which cover the future cost of the retiree healthcare benefit and the payment of sick and vacation time accruals at the time of retirement. The balances committed as of June 30, 2014 for retiree healthcare benefit and termination liability were \$106,197 and \$43,353, respectively. During fiscal 2011, the City entered into an agreement to fully pay off all accrued sick and vacation time for its' AFSCME and non-union employees over a period of 1 to 5 years depending on the hours accrued for each employee. This will free the City from any future liability for these two employee segments once the accrued sick and vacation time is paid off.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,127,662 or 51% of the total General Fund expenditures and transfers.
- The City has adopted a new MERS Hybrid retirement plan through the Municipal Employees Retirement System of Michigan (MERS) for all new hires. Currently, there are five new hires participating in the plan. This will have a significant positive impact on the future unfunded liability of the City's pension plan. The City continues to evaluate its options to reduce the current unfunded pension liability.

### 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 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 and accrued interest expense).

# CITY OF CHEBOYGAN, MICHIGAN

## Management's Discussion and Analysis

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

The government-wide financial statements include not only the City itself (known as the primary government), but also the Cheboygan Downtown Development Authority and Brownfield Redevelopment Authority, which are legally separate component units for which the City is financially accountable.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenue, 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 revenue, expenditures, and changes in fund balances for the General Fund and Major Street Fund, each of which are considered to be major funds. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and the Major Street Special Revenue Fund.

**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 sewer, water, and ice pavilion operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various City functions. The City uses its internal service fund to account for its motor pool activities.

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 sewer and water departments which are considered major enterprise funds of the City.

## CITY OF CHEBOYGAN, MICHIGAN

### Management's Discussion and Analysis

**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 governmental funds.

**Notes to 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 information concerning the City's pension and other postemployment benefit plans. This information is presented immediately following the notes to the financial statements.

The combining fund financial statements referred to earlier in connection with nonmajor governmental funds can be found as supplementary information, as listed in the table of contents.

#### Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$22,731,683 at the close of fiscal year 2014.

Approximately 83% of the City's net position reflect its net investment in capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment) 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. Net position restricted for highways and streets, capital projects, perpetual care, and debt service represents \$511,830 or 2% of total net position. The remaining balance of unrestricted net position \$3,367,659 or 15% may be used to meet the City's ongoing obligation to citizens and creditors.

## CITY OF CHEBOYGAN, MICHIGAN

### Management's Discussion and Analysis

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,040,622	\$ 2,136,459	\$ 2,296,658	\$ 2,231,454	\$ 4,337,280	\$ 4,367,913
Capital assets, net	15,609,528	16,138,637	11,888,546	12,066,263	27,498,074	\$28,204,900
Total assets	17,650,150	18,275,096	14,185,204	14,297,717	31,835,354	32,572,813
Other liabilities	106,678	144,326	217,659	116,823	324,337	261,149
Long-term liabilities	5,740,415	6,333,714	3,038,919	3,108,919	8,779,334	9,442,633
Total liabilities	5,847,093	6,478,040	3,256,578	3,225,742	9,103,671	9,703,782
Net position:						
Net investment in capital assets	10,002,567	10,032,803	8,849,627	8,957,344	18,852,194	18,990,147
Restricted	511,830	452,621	-	-	511,830	452,621
Unrestricted	1,288,660	1,311,632	2,078,999	2,114,631	3,367,659	3,426,263
Total net position	\$11,803,057	\$11,797,056	\$10,928,626	\$11,071,975	\$22,731,683	\$22,869,031

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

The City's net position decreased \$137,348 during the current fiscal year.

# CITY OF CHEBOYGAN, MICHIGAN

## Management's Discussion and Analysis

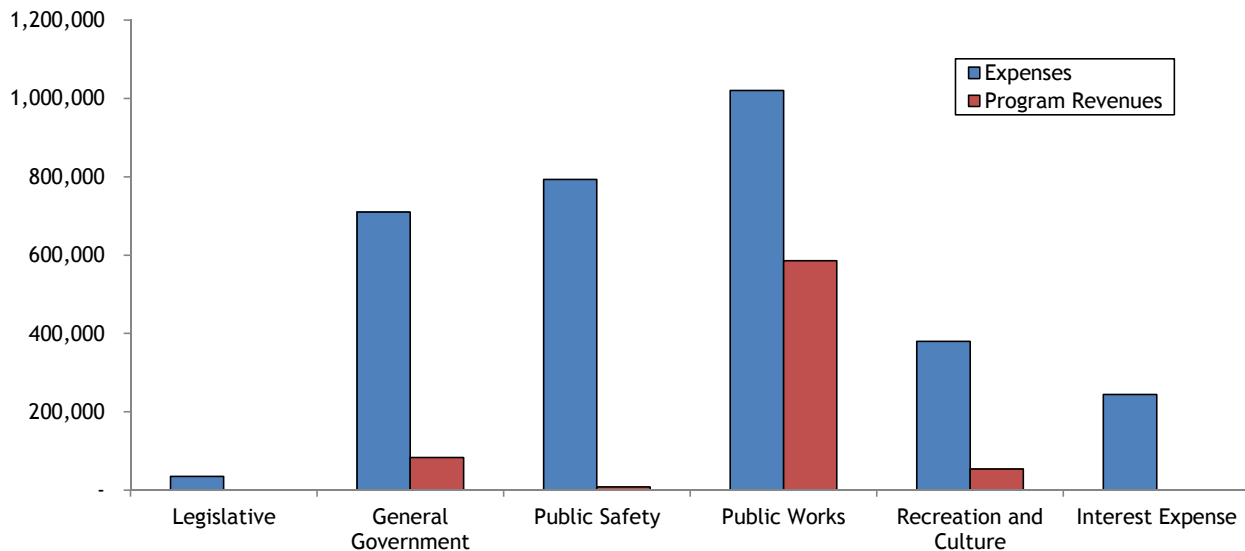
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 31,729	\$ 31,989	\$ 1,407,465	\$ 1,338,986	\$ 1,439,194	\$ 1,370,975
Operating grants and contributions	699,488	654,066	56,353	52,950	755,841	707,016
Capital grants and contributions	-	140,904	-	-	-	140,904
General revenues:						
Property taxes:						
Operating	1,463,538	1,522,542	-	-	1,463,538	1,522,542
Debt	467,584	455,778	-	-	467,584	455,778
State-shared revenues	508,851	493,813	-	-	508,851	493,813
Unrestricted investment earnings	4,512	8,653	-	-	4,512	8,653
Total revenues	<u>3,175,702</u>	<u>3,307,745</u>	<u>1,463,818</u>	<u>1,391,936</u>	<u>4,639,520</u>	<u>4,699,681</u>
Expenses:						
Legislative	35,039	40,675	-	-	35,039	40,675
General government	710,003	708,905	-	-	710,003	708,905
Public safety	793,499	891,117	-	-	793,499	891,117
Public works	1,020,588	1,007,319	-	-	1,020,588	1,007,319
Recreation & culture	379,535	412,695	-	-	379,535	412,695
Sewer	-	-	839,028	796,317	839,028	796,317
Water	-	-	609,232	523,871	609,232	523,871
Ice pavilion	-	-	145,426	152,130	145,426	152,130
Interest expense	244,518	259,967	-	-	244,518	259,967
Total expenses	<u>3,183,182</u>	<u>3,320,678</u>	<u>1,593,686</u>	<u>1,472,318</u>	<u>4,776,868</u>	<u>4,792,996</u>
Change in net position before transfers	(7,480)	(12,933)	(129,868)	(80,382)	(137,348)	(93,315)
Transfers	<u>13,481</u>	<u>36,448</u>	<u>(13,481)</u>	<u>(36,448)</u>	<u>-</u>	<u>-</u>
Change in net position	6,001	23,515	(143,349)	(116,830)	(137,348)	(93,315)
Net position:						
Beginning of year	11,797,056	11,773,541	11,071,975	11,188,805	22,869,031	22,962,346
End of year	<u>\$11,803,057</u>	<u>\$11,797,056</u>	<u>\$10,928,626</u>	<u>\$11,071,975</u>	<u>\$22,731,683</u>	<u>\$22,869,031</u>

## CITY OF CHEBOYGAN, MICHIGAN

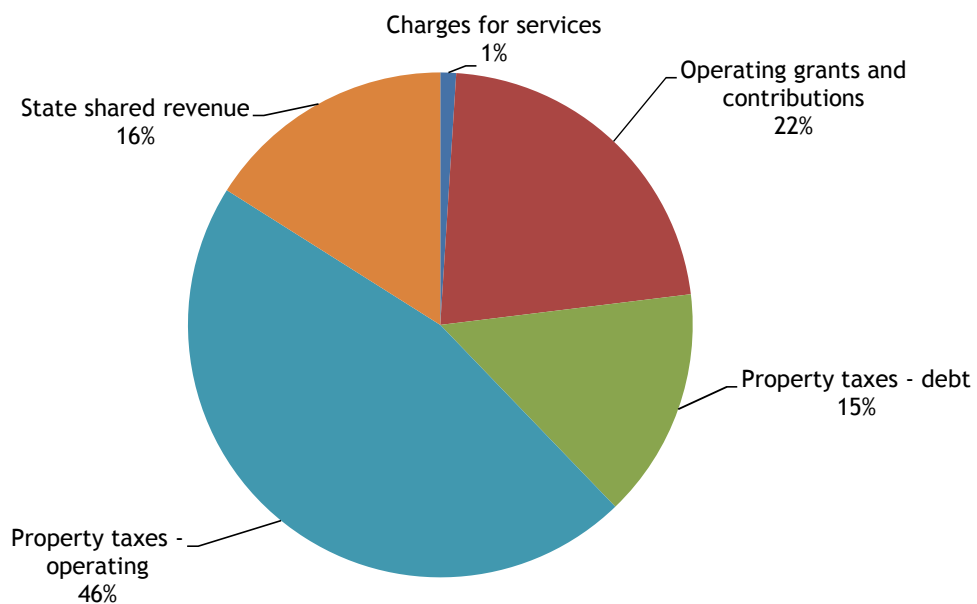
### Management's Discussion and Analysis

Governmental Activities. Governmental activities increased the City's net position by \$6,001, which was mainly attributable to reduced property tax revenues and an increase in the net OPEB asset as a result of the 2014 valuation of the OPEB plan.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

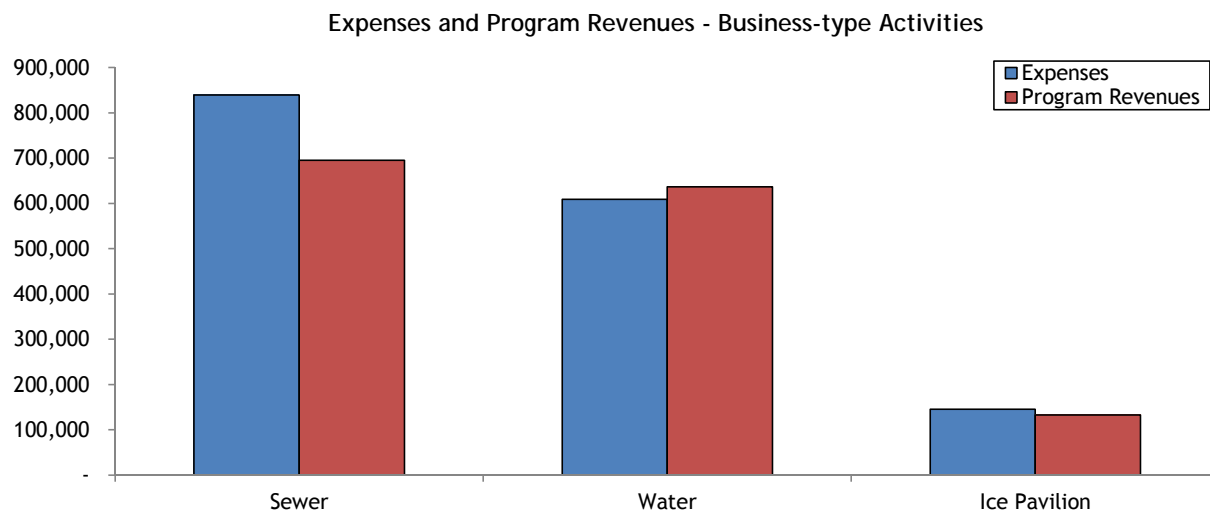


## CITY OF CHEBOYGAN, MICHIGAN

### Management's Discussion and Analysis

**Business-type Activities.** Business-type activities decreased the City's net position by \$143,349. Key components of this change are as follows:

- The Ice Pavilion Fund had a decrease in net position of \$12,861.
- The Sewer Fund had a decrease in net position of \$154,507, which was mainly due to depreciation.
- The Water Fund had an increase in net position of \$24,019, which was mainly attributable to the City monitoring and controlling the costs of this fund.



### Financial Analysis of the City'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.

The General Fund is the main operating fund of the City. The General Fund fund balance decreased by \$139,585 from \$1,511,253 to \$1,371,668 during 2014. A portion of this fund balance has been committed by the City to fund future retiree healthcare costs and termination liabilities in the amounts of \$106,197 and \$43,353, respectively. The majority of the fund balance is considered unassigned, which is available for spending at the City's discretion.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,078,999 and the net investment in capital assets was \$8,849,627. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



## CITY OF CHEBOYGAN, MICHIGAN

### Management's Discussion and Analysis

#### General Fund Budgetary Highlights

During the year, the General Fund actual revenues were higher than the final amended budgetary estimates by \$34,289. The General Fund actual expenditures were lower than the final amended budgetary estimates by \$50,973. These favorable variances were the result of the City receiving more State revenue than anticipated and the management monitoring closely the General Fund expenditures.

#### Capital Asset and Debt Administration

**Capital Assets.** The City defines a capital asset as an asset whose cost exceeds \$5,000 and whose useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 343,216	\$ 343,216	\$ 2,251	\$ 2,251	\$ 345,467	\$ 345,467
Construction-in-progress	-	38,616	137,650	-	137,650	38,616
Land improvements	942,203	1,092,673	-	-	942,203	1,092,673
Buildings and improvements	3,843,925	3,930,973	267,165	327,083	4,111,090	4,258,056
Machinery and equipment	831,773	845,798	290,030	280,815	1,121,803	1,126,613
Infrastructure	9,648,411	9,887,361	-	-	9,648,411	9,887,361
Sewer system	-	-	4,529,587	4,644,365	4,529,587	4,644,365
Water system	-	-	6,661,863	6,811,749	6,661,863	6,811,749
<b>Total</b>	<b>\$15,609,528</b>	<b>\$16,138,637</b>	<b>\$11,888,546</b>	<b>\$12,066,263</b>	<b>\$27,498,074</b>	<b>\$28,204,900</b>

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

**Long-term Debt.** Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund, enterprise fund or internal service fund. Debt is classified as long-term if the debt matures in a period greater than one year.

	General Obligation Bonds and Other Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Bonds payable	\$ 4,873,000	\$ 5,226,000	\$ 3,038,919	\$ 3,108,919	\$ 7,911,919	\$ 8,334,919
Installment debt	733,961	879,835	-	-	733,961	879,835
Compensated absences	133,454	227,879	-	-	133,454	227,879
<b>Total</b>	<b>\$ 5,740,415</b>	<b>\$ 6,333,714</b>	<b>\$ 3,038,919</b>	<b>\$ 3,108,919</b>	<b>\$ 8,779,334</b>	<b>\$ 9,442,633</b>

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

## CITY OF CHEBOYGAN, MICHIGAN

### Management's Discussion and Analysis

#### Economic Factors and Next Year's Budget and Rates

During 2013-2014, the City experienced a decrease in taxable value of approximately 2.5% and a decrease in State Equalized Value of approximately 4% occurred. The City of Cheboygan continues to review methods for delivery of services and continues to seek grants and other funding sources.

The 2014-2015 budget projects a slight decline in property tax revenue with state shared revenues projected to be at higher levels. The budget includes capital expenditures for recreation and culture. The City of Cheboygan will continue to monitor closely its capital needs, debt service requirements, and upcoming projects as they relate to the budget and projected revenue streams.

#### 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's Office, City of Cheboygan, Michigan, 403 N. Huron St., P.O. Box 39, Cheboygan, Michigan, 49721.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Net Position

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,588,021	\$ 1,818,839	\$ 3,406,860	\$ 184,524
Receivables, net	199,072	362,319	561,391	-
Prepaid items	44,721	-	44,721	182
Restricted cash	25,518	115,500	141,018	-
Restricted investments	156,457	-	156,457	-
Net other postemployment benefit asset	26,833	-	26,833	-
Capital assets not being depreciated	343,216	139,901	483,117	150,000
Capital assets being depreciated, net	15,266,312	11,748,645	27,014,957	493,426
<b>Total assets</b>	<b>17,650,150</b>	<b>14,185,204</b>	<b>31,835,354</b>	<b>828,132</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	106,678	217,659	324,337	4,323
Long-term liabilities:				
Due within one year	574,709	76,000	650,709	50,000
Due in more than one year	5,165,706	2,962,919	8,128,625	170,000
<b>Total liabilities</b>	<b>5,847,093</b>	<b>3,256,578</b>	<b>9,103,671</b>	<b>224,323</b>
<b>Net position</b>				
Net investment in capital assets	10,002,567	8,849,627	18,852,194	423,426
Restricted for:				
Debt service	23,040	-	23,040	-
Capital projects	172,797	-	172,797	-
Cemetery	182,026	-	182,026	-
Highways and streets	133,967	-	133,967	-
Unrestricted	1,288,660	2,078,999	3,367,659	180,383
<b>Total net position</b>	<b>\$ 11,803,057</b>	<b>\$ 10,928,626</b>	<b>\$ 22,731,683</b>	<b>\$ 603,809</b>

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

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2014

		Program Revenues			
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense)
Primary government					
Governmental activities:					
Legislative	\$ 35,039	\$ -	\$ -	\$ -	\$ (35,039)
General government	710,003	17,240	66,436	-	(626,327)
Public safety	793,499	7,006	1,433	-	(785,060)
Public works	1,020,588	700	584,728	-	(435,160)
Recreation & culture	379,535	6,783	46,891	-	(325,861)
Interest expense - unallocated	244,518	-	-	-	(244,518)
Total governmental activities	3,183,182	31,729	699,488	-	(2,451,965)
Business-type activities:					
Sewer	839,028	686,088	8,683	-	(144,257)
Water	609,232	593,740	42,742	-	27,250
Ice Pavilion	145,426	127,637	4,928	-	(12,861)
Total business-type activities	1,593,686	1,407,465	56,353	-	(129,868)
Total primary government	\$ 4,776,868	\$ 1,439,194	\$ 755,841	\$ -	\$ (2,581,833)
Component units					
Downtown Development Authority	\$ 189,792	\$ -	\$ 11,848	\$ -	\$ (177,944)
Brownfield Redevelopment Authority	26,434	-	-	-	(26,434)
Total component units	\$ 216,226	\$ -	\$ 11,848	\$ -	\$ (204,378)

Continued...

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (2,451,965)	\$ (129,868)	\$ (2,581,833)	\$ (204,378)
General revenues:				
Property taxes:				
Operating	1,463,538	-	1,463,538	219,055
Debt	467,584	-	467,584	-
State shared revenues	508,851	-	508,851	-
Unrestricted investment earnings	4,512	-	4,512	-
Transfers - internal activities	13,481	(13,481)	-	-
Total general revenues and transfers	2,457,966	(13,481)	2,444,485	219,055
Change in net position	6,001	(143,349)	(137,348)	14,677
Net position, beginning of year	11,797,056	11,071,975	22,869,031	589,132
Net position, end of year	\$ 11,803,057	\$ 10,928,626	\$ 22,731,683	\$ 603,809

Concluded

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

## FUND FINANCIAL STATEMENTS



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# CITY OF CHEBOYGAN, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2014

	General Fund	Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,247,546	\$ 59,634	\$ 279,920	\$ 1,587,100
Taxes receivable	11,585	-	3,917	15,502
Due from other governmental units	99,407	63,118	20,917	183,442
Prepaid items	44,721	-	-	44,721
Due from other funds	7,000	-	-	7,000
Restricted cash	-	-	25,518	25,518
Restricted investments	-	-	156,457	156,457
<b>Total assets</b>	<b>\$ 1,410,259</b>	<b>\$ 122,752</b>	<b>\$ 486,729</b>	<b>\$ 2,019,740</b>
<b>Liabilities</b>				
Accounts payable	\$ 25,421	\$ 1,376	\$ 2,765	\$ 29,562
Accrued liabilities	1,585	-	-	1,585
Due to other funds	-	-	7,000	7,000
<b>Total liabilities</b>	<b>27,006</b>	<b>1,376</b>	<b>9,765</b>	<b>38,147</b>
<b>Deferred inflow of resources</b>				
Unavailable revenue - taxes receivable	11,585	-	3,917	15,502
<b>Fund balances</b>				
Nonspendable	44,721	-	-	44,721
Restricted	-	121,376	444,958	566,334
Committed	149,550	-	-	149,550
Assigned	49,735	-	28,089	77,824
Unassigned	1,127,662	-	-	1,127,662
<b>Total fund balances</b>	<b>1,371,668</b>	<b>121,376</b>	<b>473,047</b>	<b>1,966,091</b>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<b>\$ 1,410,259</b>	<b>\$ 122,752</b>	<b>\$ 486,729</b>	<b>\$ 2,019,740</b>

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

## CITY OF CHEBOYGAN, MICHIGAN

### Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2014

Fund balances - total governmental funds	\$ 1,966,091
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 fund statement.	
Capital assets not being depreciated	343,216
Capital assets being depreciated, net	14,551,201
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Deferred property taxes receivable	15,502
Net other postemployment benefit asset	26,833
Internal service funds are used by management to charge the costs of certain activities, such as vehicle usage, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	470,898
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and notes payable	(5,382,726)
Compensated absences	(133,454)
Accrued interest on long-term debt	(54,504)
Net position of governmental activities	<u>\$ 11,803,057</u>

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

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,466,055	\$ -	\$ 467,584	\$ 1,933,639
Licenses and permits	10,990	-	-	10,990
State revenues	510,284	412,172	172,536	1,094,992
Charges for services	13,789	-	6,950	20,739
Interest	1,211	-	6,597	7,808
Other	63,160	-	46,891	110,051
<b>Total revenues</b>	<b>2,065,489</b>	<b>412,172</b>	<b>700,558</b>	<b>3,178,219</b>
<b>Expenditures</b>				
Current:				
Legislative	35,039	-	-	35,039
General government	657,981	-	44,910	702,891
Public safety	836,589	-	-	836,589
Public works	354,967	262,162	134,092	751,221
Recreation & culture	239,271	-	-	239,271
Capital outlay	-	-	6,967	6,967
Debt service:				
Principal	-	-	442,328	442,328
Interest	-	-	238,171	238,171
<b>Total expenditures</b>	<b>2,123,847</b>	<b>262,162</b>	<b>866,468</b>	<b>3,252,477</b>
<b>Revenues over (under) expenditures</b>	<b>(58,358)</b>	<b>150,010</b>	<b>(165,910)</b>	<b>(74,258)</b>
<b>Other financing sources (uses)</b>				
Transfers in	20,000	-	215,639	235,639
Transfers out	(101,227)	(82,989)	(33,067)	(217,283)
<b>Total other financing sources (uses)</b>	<b>(81,227)</b>	<b>(82,989)</b>	<b>182,572</b>	<b>18,356</b>
<b>Net change in fund balances</b>	<b>(139,585)</b>	<b>67,021</b>	<b>16,662</b>	<b>(55,902)</b>
<b>Fund balances, beginning of year</b>	<b>1,511,253</b>	<b>54,355</b>	<b>456,385</b>	<b>2,021,993</b>
<b>Fund balances, end of year</b>	<b>\$ 1,371,668</b>	<b>\$ 121,376</b>	<b>\$ 473,047</b>	<b>\$ 1,966,091</b>

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

## CITY OF CHEBOYGAN, MICHIGAN

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ (55,902)
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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 is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	75,791
Depreciation expense	(591,100)
Loss on disposal of capital assets	(14,308)

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 a future fiscal year.

Net change in deferred inflow for personal property taxes receivable	(2,517)
--	---------

Bond and loan proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds and loans increases long-term liabilities in the statement of net position. Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	442,328
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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 accrued interest payable on long-term debt	3,615
Change in other postemployment benefits asset	16,598
Change in the accrual for compensated absences	94,425

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to this fund is reported with governmental activities.

Change in net position from governmental activities in internal service fund	37,071
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Change in net position of governmental activities	<u>\$ 6,001</u>
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The accompanying notes are an integral part of these basic financial statements.

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 1,475,000	\$ 1,466,700	\$ 1,466,055	\$ (645)
Licenses and permits	10,000	10,300	10,990	690
State revenues	491,000	491,000	510,284	19,284
Charges for services	11,000	12,000	13,789	1,789
Interest	4,350	1,700	1,211	(489)
Other	26,500	49,500	63,160	13,660
<b>Total revenues</b>	<b>2,017,850</b>	<b>2,031,200</b>	<b>2,065,489</b>	<b>34,289</b>
<b>Expenditures</b>				
Legislative:				
City Council	39,050	36,700	35,039	1,661
General government:				
City manager	128,850	129,650	105,452	24,198
Clerk / treasurer	190,300	182,700	182,350	350
Clerk - elections	16,000	2,750	2,422	328
Assessor	71,625	70,625	66,236	4,389
Board of review	4,000	4,000	4,030	(30)
City hall and grounds	97,450	175,425	171,101	4,324
Retiree health care	90,500	91,200	91,200	-
Other	20,000	35,200	35,190	10
<b>Total general government</b>	<b>618,725</b>	<b>691,550</b>	<b>657,981</b>	<b>33,569</b>
Public safety:				
Police department	697,000	727,500	727,030	470
Fire department	102,550	103,550	94,391	9,159
Parking	12,000	16,900	15,168	1,732
<b>Total public safety</b>	<b>811,550</b>	<b>847,950</b>	<b>836,589</b>	<b>11,361</b>
Public works:				
Public works	176,070	257,970	257,619	351
Street lighting	95,000	98,000	97,348	652
<b>Total public works</b>	<b>271,070</b>	<b>355,970</b>	<b>354,967</b>	<b>1,003</b>
Recreation & culture:				
Recreation department	185,575	191,225	190,939	286
Opera house	21,000	21,000	21,000	-
Soccer field	425	425	279	146
Humane society	3,100	3,000	3,000	-
Promotion	39,000	27,000	24,053	2,947
<b>Total recreation &amp; culture</b>	<b>249,100</b>	<b>242,650</b>	<b>239,271</b>	<b>3,379</b>
<b>Total expenditures</b>	<b>1,989,495</b>	<b>2,174,820</b>	<b>2,123,847</b>	<b>50,973</b>

Continued...

## CITY OF CHEBOYGAN, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues over (under) expenditures	\$ 28,355	\$ (143,620)	\$ (58,358)	\$ 85,262
Other financing sources (uses)				
Transfers in	110,500	20,000	20,000	-
Transfers out	(301,870)	(107,800)	(101,227)	6,573
Total other financing sources (uses)	(191,370)	(87,800)	(81,227)	6,573
Net change in fund balance	(163,015)	(231,420)	(139,585)	91,835
Fund balance, beginning of year	1,511,253	1,511,253	1,511,253	-
Fund balance, end of year	<u>\$ 1,348,238</u>	<u>\$ 1,279,833</u>	<u>\$ 1,371,668</u>	<u>\$ 91,835</u>

Concluded

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

## CITY OF CHEBOYGAN, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Major Street Special Revenue Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
State revenues	\$ 345,200	\$ 377,700	\$ 412,172	\$ 34,472
Expenditures				
Current:				
Public works	311,825	265,200	262,162	3,038
Revenues over expenditures	33,375	112,500	150,010	37,510
Other financing sources (uses)				
Transfers in	56,870	-	-	-
Transfers out	(90,245)	(82,245)	(82,989)	(744)
Total other financing sources (uses)	(33,375)	(82,245)	(82,989)	(744)
Net change in fund balance	-	30,255	67,021	36,766
Fund balance, beginning of year	54,355	54,355	54,355	-
Fund balance, end of year	<u>\$ 54,355</u>	<u>\$ 84,610</u>	<u>\$ 121,376</u>	<u>\$ 36,766</u>

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



# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Net Position

Proprietary Funds

June 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Nonmajor Ice Pavilion	Total	Internal Service Fund
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,054,909	\$ 731,455	\$ 32,475	\$ 1,818,839	\$ 921
Accounts receivable	187,176	173,343	1,800	362,319	128
Total current assets	1,242,085	904,798	34,275	2,181,158	1,049
Noncurrent assets:					
Restricted cash	-	115,500	-	115,500	-
Capital assets not being depreciated	2,251	137,650	-	139,901	-
Capital assets being depreciated, net	5,086,778	6,661,867	-	11,748,645	715,111
Total noncurrent assets	5,089,029	6,915,017	-	12,004,046	715,111
Total assets	6,331,114	7,819,815	34,275	14,185,204	716,160
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	50,825	81,680	12,442	144,947	21,027
Due to other governmental units	48,578	-	-	48,578	-
Customer deposits	-	15,953	-	15,953	-
Accrued interest	-	8,181	-	8,181	-
Bonds and installment loans payable	-	76,000	-	76,000	45,344
Total current liabilities	99,403	181,814	12,442	293,659	66,371
Noncurrent liabilities:					
Bonds and installment loans payable	-	2,962,919	-	2,962,919	178,891
Total liabilities	99,403	3,144,733	12,442	3,256,578	245,262
<b>Net position</b>					
Net investment in capital assets	5,089,029	3,760,598	-	8,849,627	490,876
Unrestricted (deficit)	1,142,682	914,484	21,833	2,078,999	(19,978)
Total net position	\$ 6,231,711	\$ 4,675,082	\$ 21,833	\$ 10,928,626	\$ 470,898

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

# CITY OF CHEBOYGAN, MICHIGAN

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

Proprietary Funds

For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Nonmajor Ice Pavilion	Total	Internal Service Fund
Operating revenues					
Charges for services	\$ 686,088	\$ -	\$ 127,637	\$ 813,725	\$ 409,265
Sales and charges for services pledged as security for revenue bonds	-	593,740	-	593,740	-
Total operating revenues	686,088	593,740	127,637	1,407,465	409,265
Operating expenses					
Personnel services	312,524	193,669	67,553	573,746	61,037
Contracted services	44,781	23,893	-	68,674	6,170
Insurance	16,000	2,705	500	19,205	17,272
Equipment rental	35,540	38,540	-	74,080	116
Supplies	78,398	36,002	13,922	128,322	89,694
Utilities	129,746	59,585	49,811	239,142	21,565
Repair and maintenance	-	-	-	-	87,185
Depreciation	219,148	167,973	-	387,121	74,318
Other	2,891	4,066	13,640	20,597	-
Total operating expenses	839,028	526,433	145,426	1,510,887	357,357
Operating income (loss)	(152,940)	67,307	(17,789)	(103,422)	51,908
Nonoperating revenues (expenses)					
Interest income	877	2,765	-	3,642	-
State revenue	-	25,276	-	25,276	-
Miscellaneous revenue	7,806	14,701	4,928	27,435	-
Interest expense	-	(82,799)	-	(82,799)	(9,962)
Total nonoperating revenues (expenses)	8,683	(40,057)	4,928	(26,446)	(9,962)
Income (loss) before transfers	(144,257)	27,250	(12,861)	(129,868)	41,946
Transfers					
Transfers out	(10,250)	(3,231)	-	(13,481)	(4,875)
Change in net position	(154,507)	24,019	(12,861)	(143,349)	37,071
Net position, beginning of year	6,386,218	4,651,063	34,694	11,071,975	433,827
Net position, end of year	\$ 6,231,711	\$ 4,675,082	\$ 21,833	\$ 10,928,626	\$ 470,898

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

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# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Nonmajor Ice Pavilion	Total	Internal Service Fund
Cash flows from operating activities					
Receipts from customers and users	\$ 702,600	\$ 583,362	\$ 132,265	\$ 1,418,227	\$ -
Payments to suppliers	(286,958)	(65,326)	(74,858)	(427,142)	(199,457)
Payments to employees	(319,148)	(196,482)	(62,383)	(578,013)	(62,679)
Internal activity - receipts from other funds	-	-	-	-	409,265
Net cash provided by (used in) operating activities	96,494	321,554	(4,976)	413,072	147,129
Cash flows from noncapital financing activities					
State revenue	-	25,276	-	25,276	-
Transfers out	(10,250)	(3,231)	-	(13,481)	(4,875)
Net cash (used in) provided by noncapital financing activities	(10,250)	22,045	-	11,795	(4,875)
Cash flows from capital and related financing activities					
Purchase of capital assets	(53,667)	(76,787)	-	(130,454)	(74,825)
Interest payments	-	(82,799)	-	(82,799)	(9,962)
Principal payments	-	(70,000)	-	(70,000)	(56,546)
Net cash used in capital and related financing activities	(53,667)	(229,586)	-	(283,253)	(141,333)
Cash flows provided by investing activities					
Interest received	877	2,765	-	3,642	-
Net increase (decrease) in cash and cash equivalents	33,454	116,778	(4,976)	145,256	921
Cash and cash equivalents, beginning of year	1,021,455	730,177	37,451	1,789,083	-
Cash and cash equivalents, end of year	\$ 1,054,909	\$ 846,955	\$ 32,475	\$ 1,934,339	\$ 921
Classified on the statement of net position as					
Cash and cash equivalents	\$ 1,054,909	\$ 731,455	\$ 32,475	\$ 1,818,839	\$ 921
Restricted cash	-	115,500	-	115,500	-
	\$ 1,054,909	\$ 846,955	\$ 32,475	\$ 1,934,339	\$ 921

Continued...

# CITY OF CHEBOYGAN, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Nonmajor Ice Pavilion	Total	Internal Service Fund
Cash flows from operating activities					
Operating income (loss)	\$ (152,940)	\$ 67,307	\$ (17,789)	\$ (103,422)	\$ 51,908
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	219,148	167,973	-	387,121	74,318
Miscellaneous revenue	7,806	14,701	4,928	27,435	-
Changes in:					
Accounts receivable	8,706	(24,719)	(300)	(16,313)	-
Due from other funds	-	103,790	-	103,790	11,556
Accounts payable	24,929	(613)	9,531	33,847	12,148
Accrued liabilities	(6,624)	(2,813)	(1,346)	(10,783)	(1,642)
Due to other funds	(3,713)	(3,712)	-	(7,425)	(1,159)
Customer deposits	-	(360)	-	(360)	-
Due to other governmental units	(818)	-	-	(818)	-
Net cash provided by (used in) operating activities	<u>\$ 96,494</u>	<u>\$ 321,554</u>	<u>\$ (4,976)</u>	<u>\$ 413,072</u>	<u>\$ 147,129</u>
Noncash capital and related financing activities					
Construction in process related to well rebuild (recorded in accounts payable)	<u>\$ -</u>	<u>\$ 78,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concluded

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

## CITY OF CHEBOYGAN, MICHIGAN

### Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2014

#### Assets

Cash and cash equivalents	<u>\$ 13,770</u>
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#### Liabilities

Due to other governmental units	<u>\$ 13,770</u>
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The accompanying notes are an integral part of these basic financial statements.

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2014

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 184,524	\$ -	\$ 184,524
Prepaid items	182	-	182
Capital assets not being depreciated	150,000	-	150,000
Capital assets being depreciated, net	493,426	-	493,426
<b>Total assets</b>	<b>828,132</b>	<b>-</b>	<b>828,132</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	4,323	-	4,323
Long-term liabilities:			
Due within one year	50,000	-	50,000
Due in more than one year	170,000	-	170,000
<b>Total liabilities</b>	<b>224,323</b>	<b>-</b>	<b>224,323</b>
<b>Net position</b>			
Net investment in capital assets	423,426	-	423,426
Unrestricted	180,383	-	180,383
<b>Total net position</b>	<b>\$ 603,809</b>	<b>\$ -</b>	<b>\$ 603,809</b>

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

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Statement of Activities

Discretely Presented Component Units  
For the Year Ended June 30, 2014

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Expenses			
Downtown Development Authority	\$ 189,792	\$ -	\$ 189,792
Brownfield Redevelopment Authority	-	26,434	26,434
Total expenses	189,792	26,434	216,226
Program revenues			
Operating grants and contributions	11,848	-	11,848
Net expenses	(177,944)	(26,434)	(204,378)
General revenues			
Property taxes	205,989	13,066	219,055
Change in net position	28,045	(13,368)	14,677
Net position, beginning of year	575,764	13,368	589,132
Net position, end of year	\$ 603,809	\$ -	\$ 603,809

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



## NOTES TO FINANCIAL STATEMENTS

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Cheboygan, Michigan*, (the "City") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationship with the City.

#### Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is financially accountable. Discretely presented component units, are reported in a separate column in the financial statements to emphasize that they are legally separate from the City.

#### *Discretely Presented Component Units*

Downtown Development Authority (the "DDA") - The amounts reported as the DDA discretely presented component unit in the basic financial statements include the financial data of the City's Downtown Development Authority to emphasize that it is legally separate from the City. The members of the governing board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence the operations of the DDA. Separate financial statements of the DDA have not been prepared.

Brownfield Redevelopment Authority ("RDA") - The amounts reported as the RDA discretely presented component unit in the basic financial statements include the financial data of the City's Brownfield Redevelopment Authority to emphasize that it is legally separate from the City. The members of the governing board of the RDA are appointed by the City Council. The budgets and expenditures of the RDA must be approved by the City Council. The City also has the ability to significantly influence the operations of the RDA. Separate financial statements of the RDA have not been prepared.

#### *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 units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

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

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

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.

### *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. 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 general government, except those accounted for and reported in another fund.

The *Major Street Special Revenue Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* accounts for the operation and maintenance of the City's sewage disposal and treatment system.

The *Water Enterprise Fund* accounts for the operation and maintenance of the City's water distribution and treatment system.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

Additionally, the City reports the following fund types:

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

*Debt Service Funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

The *Permanent Fund* accounts for assets that are permanently restricted for the perpetual care of the City's cemetery.

*Enterprise Funds* account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *Internal Service Fund* accounts for the operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

The *Agency Fund* is custodial in nature and does 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 payments in lieu of taxes and various charges between the City's water and sewer function 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 enterprise funds and of the City's internal service funds are charges to customers for sales and services. 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 are 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 CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

Assets, liabilities, deferred inflow of resources and equity

### *Deposits and investments*

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable and is displayed on the statement of net position/balance sheet as "Cash and cash equivalents". The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various certificates of deposit. The debt service and trust and agency funds cash resources are invested separately as required by law.

The City's cash and cash equivalents include 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 and the City's investment policy allows 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.

The City's investments during the year consisted of certificate of deposits and a sweep account, which is invested in money market funds.

### *Receivables and payables*

All receivables are reported at their gross value with the exception of the delinquent personal property taxes, which are reported net of an allowance for uncollectible balances of \$63,619.

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). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Amounts due from other governmental units include amounts due from the State for revenue sharing as well as 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 deferred inflow of resources.

### *Restricted assets*

Certain resources are set aside for repayment of the City's outstanding bonds and cemetery perpetual care, which are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants or applicable law.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### *Other assets*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

### *Capital assets*

Capital assets, which include property, buildings, 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. Capital assets are defined by the City as assets having a useful life in excess of two years and whose costs exceed \$5,000. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their market value as of the donation date.

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 asset constructed. No such interest expense was incurred during the current fiscal year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	10-40
Buildings and improvements	15-40
Machinery and equipment	3-30
Infrastructure	30
Sewer and water systems	7-75

### *Compensated absences*

Eligible employees are permitted to accumulate earned but unused sick and vacation pay benefits in varying amounts based on length of service and certain other established criteria. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### *Deferred inflows of resources*

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

### *Fund equity*

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 the 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 Manager or his designee. Unassigned fund balance is the residual classification for the General Fund.

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

### *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 July 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan County.

Property taxes for the Downtown Development Authority and Brownfield Redevelopment Authority are derived by capturing the taxes on the increase in taxable value of the property located within the respective districts.

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

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### *Interfund transactions*

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

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Debt service funds are also included in the budgetary process; however, State statutes do not require legally adopted budgets for such funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each June, after receiving input from the individual departments, the City prepares a proposed operating budget for the fiscal period commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets are adopted at the activity level. Any revisions that alter the total expenditures of any department or fund (i.e. budget amendments) require approval by the City Council. All appropriations lapse at the end of the fiscal year.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity, subject to the condition that the total expenditures do not exceed the approved appropriations by activity.



# CITY OF CHEBOYGAN, MICHIGAN

## Notes to 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. The approved budgets of the City were adopted on the activity level basis for all governmental funds. During the year ended June 30, 2014 the City had expenditures in budgetary funds which were in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
General government:			
Board of review	\$ 4,000	\$ 4,030	\$ 30
Major Street Fund			
Transfers out	82,245	82,989	744

### 4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2014:

	Primary Government	Component Units	Total
Statement of Net Position			
Cash and cash equivalents	\$ 3,406,860	\$ 184,524	\$ 3,591,384
Restricted cash	141,018	-	141,018
Restricted investments	156,457	-	156,457
Total Statement of Net Position	<u>\$ 3,704,335</u>	<u>\$ 184,524</u>	3,888,859
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			<u>13,770</u>
Total			<u>\$ 3,902,629</u>
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 3,745,004
Certificate of deposit (due within 1 year)			84,112
Certificate of deposit (due more than 1 year)			72,513
Cash on hand			<u>1,000</u>
Total deposits and investments			<u>\$ 3,902,629</u>

*Custodial Credit Risk* - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might 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, \$3,560,281 of the City's bank balance of \$3,992,428 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

*Investment Credit Risk* - The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City does not have any 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 summary of significant accounting policies. 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.

### 5. RECEIVABLES, NET

Receivables, net are comprised of the following at June 30, 2014:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 128	\$ 362,319
Personal property taxes receivable	79,121	-
Allowance for uncollectable personal property taxes	(63,619)	-
Due from other governments	183,442	-
	<u>\$ 199,072</u>	<u>\$ 362,319</u>

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following at June 30, 2014:

	Governmental Activities	Business-type Activities	Component Units
Accounts payable	\$ 50,589	\$ 144,947	\$ 2,797
Accrued liabilities	1,585	-	-
Due to other governmental units	-	48,578	-
Customer deposits	-	15,953	-
Accrued interest on long-term debt	54,504	8,181	1,526
	<u>\$ 106,678</u>	<u>\$ 217,659</u>	<u>\$ 4,323</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 7,000	\$ -
Nonmajor governmental funds	-	7,000
	<u>\$ 7,000</u>	<u>\$ 7,000</u>

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

For the year ended June 30, 2014, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 20,000	\$ 101,227
Major Street Fund	-	82,989
Nonmajor governmental funds	215,639	33,067
Sewer Fund	-	10,250
Water Fund	-	3,231
Internal service fund	-	4,875
	<u>\$ 235,639</u>	<u>\$ 235,639</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; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 8. CAPITAL ASSETS

#### Primary government

Capital asset activity for the primary government for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 343,216	\$ -	\$ -	\$ -	\$ 343,216
Construction-in-progress	38,616	-	(14,308)	(24,308)	-
	<u>381,832</u>	<u>-</u>	<u>(14,308)</u>	<u>(24,308)</u>	<u>343,216</u>
Capital assets, being depreciated:					
Land improvements	3,827,589	-	-	-	3,827,589
Buildings and improvements	6,208,418	42,651	-	24,308	6,275,377
Machinery and equipment	3,636,298	107,966	-	-	3,744,264
Infrastructure	12,709,502	-	-	-	12,709,502
	<u>26,381,807</u>	<u>150,617</u>	<u>-</u>	<u>24,308</u>	<u>26,556,732</u>
Less accumulated depreciation for:					
Land improvements	(2,734,916)	(150,470)	-	-	(2,885,386)
Buildings and improvements	(2,277,445)	(154,007)	-	-	(2,431,452)
Machinery and equipment	(2,790,500)	(121,991)	-	-	(2,912,491)
Infrastructure	(2,822,141)	(238,950)	-	-	(3,061,091)
	<u>(10,625,002)</u>	<u>(665,418)</u>	<u>-</u>	<u>-</u>	<u>(11,290,420)</u>
Total capital assets					
being depreciated, net	<u>15,756,805</u>	<u>(514,801)</u>	<u>-</u>	<u>24,308</u>	<u>15,266,312</u>
Governmental activities					
capital assets, net	<u>\$ 16,138,637</u>	<u>\$ (514,801)</u>	<u>\$ (14,308)</u>	<u>\$ -</u>	<u>\$ 15,609,528</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 2,251	\$ -	\$ -	\$ -	\$ 2,251
Construction-in-progress	-	137,650	-	-	137,650
	<u>2,251</u>	<u>137,650</u>	<u>-</u>	<u>-</u>	<u>139,901</u>
Capital assets, being depreciated:					
Building and improvements	2,365,781	-	-	-	2,365,781
Machinery and equipment	3,121,335	47,134	-	-	3,168,469
Sewer system	7,608,711	6,533	-	-	7,615,244
Water system	9,262,716	18,087	-	-	9,280,803
	<u>22,358,543</u>	<u>71,754</u>	<u>-</u>	<u>-</u>	<u>22,430,297</u>
Less accumulated depreciation for:					
Building and improvements	(2,038,698)	(59,918)	-	-	(2,098,616)
Machinery and equipment	(2,840,520)	(37,919)	-	-	(2,878,439)
Sewer system	(2,964,346)	(121,311)	-	-	(3,085,657)
Water system	(2,450,967)	(167,973)	-	-	(2,618,940)
	<u>(10,294,531)</u>	<u>(387,121)</u>	<u>-</u>	<u>-</u>	<u>(10,681,652)</u>
Total capital assets being depreciated, net	<u>12,064,012</u>	<u>(315,367)</u>	<u>-</u>	<u>-</u>	<u>11,748,645</u>
Business-type activities capital assets, net	<u>\$ 12,066,263</u>	<u>\$ (177,717)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,888,546</u>

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

### Depreciation of governmental activities by function

General government	\$ 93,754
Public safety	32,728
Public works	344,212
Recreation & culture	120,406
Internal service	74,318
	<u>\$ 665,418</u>

### Depreciation of business-type activities by function

Sewer	\$ 219,148
Water	167,973
	<u>\$ 387,121</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### Discretely presented component unit

Capital asset activity for the DDA component unit for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Downtown Development Authority</b>					
Capital assets, not being depreciated:					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Capital assets, being depreciated:					
Buildings and improvements	129,700	-	-	-	129,700
Land improvements	444,567	-	-	-	444,567
	<u>574,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>574,267</u>
Less accumulated depreciation for:					
Buildings and improvements	(14,134)	(3,326)	-	-	(17,460)
Land improvements	(45,598)	(17,783)	-	-	(63,381)
	<u>(59,732)</u>	<u>(21,109)</u>	<u>-</u>	<u>-</u>	<u>(80,841)</u>
Total capital assets being depreciated, net	<u>514,535</u>	<u>(21,109)</u>	<u>-</u>	<u>-</u>	<u>493,426</u>
Capital assets, net	<u>\$ 664,535</u>	<u>\$ (21,109)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 643,426</u>

Depreciation expense was charged to public works in the amount of \$21,109.

## 9. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
1997 Rural Economic Development Bonds, due in annual installments ranging from \$38,000 to \$108,000 through February 2037, interest at 4.5% payable semi-annually.	\$ 1,576,000	\$ -	\$ (38,000)	\$ 1,538,000	\$ 39,000
2004 General Obligation Bonds due in annual installments ranging from \$65,000 to \$105,000 through May 2023, interest ranging from 4.15% to 5.15% payable semi-annually.	940,000	-	(65,000)	875,000	70,000

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
2006 General					
Obligation Unlimited Tax					
Refunding Bonds, due in					
annual installments ranging					
from \$170,000 to \$265,000					
through May 2022,					
interest ranging from 3.75% to					
4.00%, payable semi-annually.	\$ 1,910,000	\$ -	\$ (170,000)	\$ 1,740,000	\$ 180,000
2007 General Obligation					
Capital Improvement Bonds,					
due in annual installments					
ranging from \$20,000 to					
\$40,000 through May 2027,					
interest ranging from 3.88%					
to 4.13% payable semi-annually.	395,000	-	(20,000)	375,000	20,000
2009 Michigan Transportation					
Fund Bonds due in annual					
installments ranging from					
\$20,000 to \$30,000 through					
May 2024, interest ranging					
from 3.50% to 4.50%,					
payable semi-annually.	280,000	-	(20,000)	260,000	20,000
2006 Michigan Transportation					
Fund Bonds due in annual					
installments ranging from					
\$40,000 to \$45,000 through					
May 2016, interest ranging					
from 4.55% to 4.70%,					
payable semi-annually.	125,000	-	(40,000)	85,000	40,000
Total bonded debt	5,226,000	-	(353,000)	4,873,000	369,000
2012 installment purchase					
agreement - Festival Square,					
due in annual payments					
ranging from \$57,124 to					
\$58,922 through May 2022					
including interest charged					
at 2.84%.	455,000	-	(46,000)	409,000	47,000

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
2006 Act 99 Energy Equipment note payable, due in semi-annual payments ranging from \$48,634 to \$53,474 through March 2016 including interest charged at 3.98%.	\$ 144,054	\$ -	\$ (43,328)	\$ 100,726	\$ 48,807
2011 Street Sweeper note payable, due in monthly payments of \$1,574 through June 2021 including interest charged at 4.51%.	130,552	-	(14,384)	116,168	14,899
2011 Fire Equipment note payable, due in monthly payments of \$2,637 through June 2017 including interest charged at 3.8%.	115,277	-	(27,202)	88,075	28,256
1997 Ice Resurfacer note payable, due in annual payments of \$2,939 through July 2022 including interest charged at 3.75%.	22,102	-	(2,110)	19,992	2,189
2008 Act 99 Equipment note payable, repaid during fiscal 2014.	12,850	-	(12,850)	-	-
Total installment purchase agreements	879,835	-	(145,874)	733,961	141,151
Total bonded debt and installment purchase agreements	6,105,835	-	(498,874)	5,606,961	510,151
Compensated absences	227,879	56,607	(151,032)	133,454	64,558
Total governmental activities	\$ 6,333,714	\$ 56,607	\$ (649,906)	\$ 5,740,415	\$ 574,709



# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
2007 Water Supply System Revenue Bonds, due in annual installments ranging from \$20,000 to \$40,000 through May 2027, interest at 4.25 to 4.63%, payable semi-annually.	\$ 435,000	\$ -	\$ (20,000)	\$ 415,000	\$ 25,000
2011 Water Supply System Revenue Bonds, due in annual installments ranging from \$10,919 to \$110,000 through June 2049, bearing interest at 2.38%, payable semi-annually.	2,673,919	-	(50,000)	2,623,919	51,000
<b>Total business-type activities</b>	<b>\$ 3,108,919</b>	<b>\$ -</b>	<b>\$ (70,000)</b>	<b>\$ 3,038,919</b>	<b>\$ 76,000</b>
<b>Downtown Development Authority Component Unit</b>					
2009 Downtown Development Authority Tax Increment Bonds, due in annual installments ranging from \$50,000 to \$60,000 through November 2018, interest ranging from 3.63% to 3.75%, payable semi-annually.	\$ 270,000	\$ -	\$ (50,000)	\$ 220,000	\$ 50,000

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

Annual debt service requirements to maturity for long-term debt, other than compensated absences, of the primary government are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 510,151	\$ 227,813	\$ 76,000	\$ 80,762
2016	542,952	207,764	77,000	78,457
2017	465,820	186,767	78,000	76,128
2018	454,001	168,477	80,000	73,776
2019	473,686	150,427	86,000	71,376
2020-2024	1,996,351	467,878	465,000	315,923
2025-2029	445,000	217,500	457,000	239,605
2030-2034	417,000	125,910	379,000	186,665
2035-2039	302,000	27,765	425,000	139,522
2040-2044	-	-	479,000	86,535
2045-2049	-	-	436,919	26,875
	<u>\$ 5,606,961</u>	<u>\$ 1,780,301</u>	<u>\$ 3,038,919</u>	<u>\$ 1,375,624</u>

Annual debt service requirements to maturity for long-term debt of the DDA are as follows:

Year Ended June 30,	Principal	Interest
2015	\$ 50,000	\$ 7,313
2016	55,000	5,344
2017	55,000	3,281
2018	60,000	1,125
	<u>\$ 220,000</u>	<u>\$ 17,063</u>

For governmental activities, compensated absences are generally liquidated by the General Fund.

## 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three years.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 11. DEFINED BENEFIT PENSION PLAN

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan ("MERS"), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate varies by bargaining unit as a percentage of annual covered payroll from 6.52% to 15.64%. The employees are required to contribute at a rate of 6.00%.

For the year ended June 30, 2014, the City's annual MERS pension cost was \$277,862 which was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected annual salary increases of 4.5% (1%, 2% and 3% for calendar years 2014, 2015 and 2016) plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases, and (c) an inflationary rate of 3-4%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the most recent actuarial valuation, was 25 years.

Three-Year Trend Information			
Years Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	210,167	100%	\$ -
2013	239,258	100%	-
2014	277,862	100%	-

*Funded Status and Funding Progress.* As of December 31, 2013, the Plan was 67% funded. The actuarial accrued liability for benefits was \$9,903,692 and the actuarial value of assets was \$6,627,088, resulting in an unfunded actuarial accrued liability of \$3,276,604, which means the plan is under funded. The covered payroll (annual payroll for active employees covered by the Plan) was \$1,160,846 and the ratio for the UAAL to the covered payroll was 282%.

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 12. OTHER POSTEMPLOYMENT BENEFITS

*Plan Description.* The City administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides healthcare insurance from ages 55 to 65 for eligible employees and their spouses through the City's group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the City Council. Employees hired prior to April 27, 1999 are eligible to participate in this plan. The City contributes 100% of the cost of health insurance premiums for eligible employees retired on or before August 8, 2008 and their spouses. Eligible employees who retire after August 8, 2008 receive a reduced benefit based on years of service. Employees hired after April 27, 1999 are not eligible to receive any healthcare benefits.

*Funding Policy.* The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. For the year ended June 30, 2014, the City contributed \$91,200 to the Plan, all of which was to fund current year benefits. Retirees receiving benefits made no contributions to the Plan, as none were required.

*Annual OPEB Cost and Net OPEB Obligation (Asset).* The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the *annual required contribution of the employer ("ARC")*. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation (asset):

Annual required contribution	\$ 74,420
Interest on net OPEB obligation (asset)	(128)
Adjustment to annual required contribution	<u>310</u>
Net OPEB cost (expense)	74,602
Contributions made	<u>(91,200)</u>
Increase in net OPEB asset	(16,598)
Net OPEB asset, beginning of year	<u>(10,235)</u>
Net OPEB asset, end of year	<u><u>\$ (26,833)</u></u>

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Three-Year Trend Information			
Years Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2012	\$ 90,338	105%	\$ (9,949)
2013	90,214	100%	(10,235)
2014	74,602	122%	(26,833)

*Funded Status and Funding Progress.* As of June 30, 2014, the actuarial accrued liability for benefits was \$1,475,813, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,178,259 and the ratio of the UAAL to the covered payroll was 125%.

The projections of future benefit payments for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

*Mortality*—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and for Females were used.

*Turnover*—Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate*—The expected rate of increase in healthcare insurance premiums was based on projections by City management and a rate of 12.75% was used.

*Health insurance premiums*—2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

*Inflation rate*—The expected long-term inflation assumption of 3.00% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

*Payroll growth rate*—The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 1.25% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was 30 years.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## 13. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2014, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 343,216	\$ 139,901	\$ 150,000
Capital assets being depreciated, net	15,266,312	11,748,645	493,426
	<u>15,609,528</u>	<u>11,888,546</u>	<u>643,426</u>
Related debt:			
Due within one year	(574,709)	(76,000)	(50,000)
Due in more than one year	(5,165,706)	(2,962,919)	(170,000)
Add back: compensated absences	133,454	-	-
	<u>133,454</u>	<u>-</u>	<u>-</u>
Net investment in capital assets	<u>\$ 10,002,567</u>	<u>\$ 8,849,627</u>	<u>\$ 423,426</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Notes to Financial Statements

### 14. FUND BALANCES - GOVERNMENTAL FUNDS

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Major Street	Nonmajor Funds	Total
Nonspendable:				
Prepays	\$ 44,721	\$ -	\$ -	\$ 44,721
Restricted for:				
Highways and streets	-	121,376	12,591	133,967
Cemetery	-	-	182,026	182,026
Debt service	-	-	77,544	77,544
Spies endowment- swimming pool	-	-	172,797	172,797
Total restricted	-	121,376	444,958	566,334
Committed for:				
Retiree healthcare	106,197	-	-	106,197
Termination liability	43,353	-	-	43,353
Total committed	149,550	-	-	149,550
Assigned for:				
Subsequent year's budget	49,735	-	-	49,735
Festival square	-	-	28,089	28,089
Total assigned	49,735	-	28,089	77,824
Unassigned	1,127,662	-	-	1,127,662
Total fund balances, governmental funds	\$ 1,371,668	\$ 121,376	\$ 473,047	\$ 1,966,091

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## REQUIRED SUPPLEMENTARY INFORMATION



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# CITY OF CHEBOYGAN, MICHIGAN

## Required Supplementary Information

The following schedules of funding progress and schedules of employer contributions, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### 1. MERS Defined Benefit Pension Plan

Schedule of Funding Progress MERS Defined Benefit Pension Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008	\$ 6,653,721	\$ 8,928,924	\$ 2,275,203	75%	\$ 1,307,260	174%
12/31/2009	6,610,599	9,098,945	2,488,346	73%	1,217,616	204%
12/31/2010	6,614,937	9,502,331	2,887,394	70%	1,166,505	248%
12/31/2011	6,585,748	9,689,509	3,103,761	68%	1,089,961	285%
12/31/2012	6,537,153	9,838,941	3,301,788	66%	1,185,676	278%
12/31/2013	6,627,088	9,903,692	3,276,604	67%	1,160,846	282%

Schedule of Employer Contributions MERS Defined Benefit Pension Plan		
Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
6/30/2009	\$ 179,929	100%
6/30/2010	171,676	100%
6/30/2011	188,233	100%
6/30/2012	210,167	100%
6/30/2013	239,258	100%
6/30/2014	277,862	100%

# CITY OF CHEBOYGAN, MICHIGAN

## Required Supplementary Information

### 2. Other Postemployment Benefits

Schedule of Funding Progress Other Postemployment Benefits Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2010	\$ -	\$ 1,467,192	\$ 1,467,192	-%	\$ 853,458	172%
6/30/2011	-	1,147,165	1,147,165	-%	853,458	134%
6/30/2014	-	1,475,813	1,475,813	-%	1,178,259	125%

Schedule of Employer Contributions Other Postemployment Benefits Plan		
Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
6/30/2012	\$ 90,051	105%
6/30/2013	90,051	108%
6/30/2014	74,420	123%

## COMBINING FUND FINANCIAL STATEMENTS

# CITY OF CHEBOYGAN, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Fund	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 101	\$ 77,544	\$ 202,275	\$ -	\$ 279,920
Taxes receivable	-	3,917	-	-	3,917
Due from other governmental units	20,917	-	-	-	20,917
Restricted cash	-	-	-	25,518	25,518
Restricted investments	-	-	-	156,457	156,457
<b>Total assets</b>	<b>\$ 21,018</b>	<b>\$ 81,461</b>	<b>\$ 202,275</b>	<b>\$ 181,975</b>	<b>\$ 486,729</b>
<b>Liabilities</b>					
Accounts payable	\$ 1,376	\$ -	\$ 1,389	\$ -	\$ 2,765
Due to other funds	7,000	-	-	-	7,000
<b>Total liabilities</b>	<b>8,376</b>	<b>-</b>	<b>1,389</b>	<b>-</b>	<b>9,765</b>
<b>Deferred inflow of resources</b>					
Unavailable revenue - taxes receivable	-	3,917	-	-	3,917
<b>Fund balances</b>					
Restricted	12,642	77,544	172,797	181,975	444,958
Assigned	-	-	28,089	-	28,089
<b>Total fund balances</b>	<b>12,642</b>	<b>77,544</b>	<b>200,886</b>	<b>181,975</b>	<b>473,047</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 21,018</b>	<b>\$ 81,461</b>	<b>\$ 202,275</b>	<b>\$ 181,975</b>	<b>\$ 486,729</b>

# CITY OF CHEBOYGAN, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2014

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Fund	Total
<b>Revenues</b>					
Property taxes	\$ -	\$ 467,584	\$ -	\$ -	\$ 467,584
State revenues	172,536	-	-	-	172,536
Charges for services	6,950	-	-	-	6,950
Interest	-	4,367	20	2,210	6,597
Other	-	44,176	1,015	1,700	46,891
<b>Total revenues</b>	<b>179,486</b>	<b>516,127</b>	<b>1,035</b>	<b>3,910</b>	<b>700,558</b>
<b>Expenditures</b>					
Current:					
General government	44,910	-	-	-	44,910
Public works	134,092	-	-	-	134,092
Capital outlay	-	-	6,967	-	6,967
Debt service:					
Principal	-	442,328	-	-	442,328
Interest	-	238,171	-	-	238,171
<b>Total expenditures</b>	<b>179,002</b>	<b>680,499</b>	<b>6,967</b>	<b>-</b>	<b>866,468</b>
<b>Revenues over (under) expenditures</b>	<b>484</b>	<b>(164,372)</b>	<b>(5,932)</b>	<b>3,910</b>	<b>(165,910)</b>
<b>Other financing sources (uses)</b>					
Transfers in	38,404	177,235	-	-	215,639
Transfers out	(30,893)	-	(20)	(2,154)	(33,067)
<b>Total other financing sources (uses)</b>	<b>7,511</b>	<b>177,235</b>	<b>(20)</b>	<b>(2,154)</b>	<b>182,572</b>
<b>Net change in fund balances</b>	<b>7,995</b>	<b>12,863</b>	<b>(5,952)</b>	<b>1,756</b>	<b>16,662</b>
<b>Fund balances, beginning of year</b>	<b>4,647</b>	<b>64,681</b>	<b>206,838</b>	<b>180,219</b>	<b>456,385</b>
<b>Fund balances, end of year</b>	<b>\$ 12,642</b>	<b>\$ 77,544</b>	<b>\$ 200,886</b>	<b>\$ 181,975</b>	<b>\$ 473,047</b>

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2014

	Local Street	Cemetery	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 50	\$ 51	\$ 101
Due from other governmental units	20,917	-	20,917
	<u>20,917</u>	<u>-</u>	<u>20,917</u>
<b>Total assets</b>	<u>\$ 20,967</u>	<u>\$ 51</u>	<u>\$ 21,018</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,376	\$ -	\$ 1,376
Due to other funds	7,000	-	7,000
	<u>7,000</u>	<u>-</u>	<u>7,000</u>
<b>Total liabilities</b>	8,376	-	8,376
<b>Fund balances</b>			
Restricted	12,591	51	12,642
	<u>12,591</u>	<u>51</u>	<u>12,642</u>
<b>Total liabilities and fund balances</b>	<u>\$ 20,967</u>	<u>\$ 51</u>	<u>\$ 21,018</u>

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2014

	Local Street	Cemetery	Total
Revenues			
State revenues	\$ 172,536	\$ -	\$ 172,536
Charges for services	700	6,250	6,950
Total revenues	173,236	6,250	179,486
Expenditures			
General government	-	44,910	44,910
Public works	134,092	-	134,092
Total expenditures	134,092	44,910	179,002
Revenues over (under) expenditures	39,144	(38,660)	484
Other financing sources (uses)			
Transfers in	-	38,404	38,404
Transfers out	(30,893)	-	(30,893)
Total other financing sources (uses)	(30,893)	38,404	7,511
Net change in fund balances	8,251	(256)	7,995
Fund balances, beginning of year	4,340	307	4,647
Fund balances, end of year	\$ 12,591	\$ 51	\$ 12,642



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# CITY OF CHEBOYGAN, MICHIGAN

## Combining Balance Sheet Nonmajor Debt Service Funds June 30, 2014

	1997 Rural Economic Development Loan	2004 General Obligation Bond	2006 Refunding Bond Debt	2006 Transportation Bond Debt	2006 Energy Upgrade
<b>Assets</b>					
Cash and cash equivalents	\$ 24,145	\$ 25,611	\$ 27,788	\$ -	\$ -
Taxes receivables	956	956	2,005	-	-
<b>Total assets</b>	<u>\$ 25,101</u>	<u>\$ 26,567</u>	<u>\$ 29,793</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Deferred inflow of resources</b>					
Unavailable revenue taxes receivable	\$ 956	\$ 956	\$ 2,005	\$ -	\$ -
<b>Fund balances</b>					
Restricted	<u>24,145</u>	<u>25,611</u>	<u>27,788</u>	<u>-</u>	<u>-</u>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<u>\$ 25,101</u>	<u>\$ 26,567</u>	<u>\$ 29,793</u>	<u>\$ -</u>	<u>\$ -</u>



2007 Capital Improvement Bonds	2009 Transportation Bond Debt	2012 Festival Square Debt	Total
\$ -	\$ -	\$ -	\$ 77,544
-	-	-	3,917
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,461</u>
\$ -	\$ -	\$ -	\$ 3,917
-	-	-	77,544
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,461</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Debt Service Funds

For the Year Ended June 30, 2014

	1997 Rural Economic Development Loan	2004 General Obligation Bond	2006 Refunding Bond Debt	2006 Transportation Bond Debt	2006 Energy Upgrade
Revenues					
Property taxes	\$ 114,520	\$ 114,493	\$ 238,571	\$ -	\$ -
Interest	1,075	1,091	2,201	-	-
Other	-	-	-	-	-
Total revenues	115,595	115,584	240,772	-	-
Expenditures					
Debt service:					
Principal	38,000	65,000	170,000	40,000	43,328
Interest	70,784	44,505	70,792	5,795	5,306
Total expenditures	108,784	109,505	240,792	45,795	48,634
Revenues over (under) expenditures	6,811	6,079	(20)	(45,795)	(48,634)
Other financing sources					
Transfers in	-	-	-	45,795	48,627
Net change in fund balances	6,811	6,079	(20)	-	(7)
Fund balances, beginning of year	17,334	19,532	27,808	-	7
Fund balances, end of year	\$ 24,145	\$ 25,611	\$ 27,788	\$ -	\$ -



2007 Capital Improvement Bonds	2009 Transportation Bond Debt	2012 Festival Square Debt	Total
\$ -	\$ -	\$ -	\$ 467,584
-	-	-	4,367
-	-	44,176	44,176
<hr/>			
-	-	44,176	516,127
<hr/>			
20,000	20,000	46,000	442,328
16,525	11,563	12,901	238,171
<hr/>			
36,525	31,563	58,901	680,499
<hr/>			
(36,525)	(31,563)	(14,725)	(164,372)
<hr/>			
36,525	31,563	14,725	177,235
<hr/>			
-	-	-	12,863
<hr/>			
-	-	-	64,681
<hr/>			
\$ -	\$ -	\$ -	\$ 77,544
<hr/>			

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Balance Sheet

Nonmajor Capital Project Funds

June 30, 2014

	Festival Square Capital Project Fund	Water Capital Project Fund	Spies Endowment - Capital Project Fund	Total
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 29,478</u>	<u>\$ -</u>	<u>\$ 172,797</u>	<u>\$ 202,275</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 1,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,389</u>
<b>Fund balances</b>				
Restricted	-	-	172,797	172,797
Assigned	<u>28,089</u>	<u>-</u>	<u>-</u>	<u>28,089</u>
<b>Total fund balances</b>	<u>28,089</u>	<u>-</u>	<u>172,797</u>	<u>200,886</u>
<b>Total liabilities and fund balances</b>	<u>\$ 29,478</u>	<u>\$ -</u>	<u>\$ 172,797</u>	<u>\$ 202,275</u>

## CITY OF CHEBOYGAN, MICHIGAN

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Project Funds

For the Year Ended June 30, 2014

	Festival Square Capital Project Fund	Water Capital Project Fund	Spies Endowment - Capital Project Fund	Total
Revenues				
Interest	\$ -	\$ 20	\$ -	\$ 20
Other	1,015	-	-	1,015
Total revenues	1,015	20	-	1,035
Expenditures				
Capital outlay	6,967	-	-	6,967
Revenues over (under) expenditures	(5,952)	20	-	(5,932)
Other financing uses				
Transfers out	-	(20)	-	(20)
Net change in fund balances	(5,952)	-	-	(5,952)
Fund balances, beginning of year	34,041	-	172,797	206,838
Fund balances, end of year	\$ 28,089	\$ -	\$ 172,797	\$ 200,886

**DOWNTOWN DEVELOPMENT  
AUTHORITY COMPONENT UNIT**



# CITY OF CHEBOYGAN, MICHIGAN

## Combining Balance Sheet

Downtown Development Authority Component Unit

June 30, 2014

	General Operations	Debt Service	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 184,524	\$ -	\$ 184,524
Prepaid items	182	-	182
<b>Total assets</b>	<u>\$ 184,706</u>	<u>\$ -</u>	<u>\$ 184,706</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,797	\$ -	\$ 2,797
<b>Fund balances</b>			
Assigned for subsequent year's expenditures	25,525	-	25,525
Unassigned	156,384	-	156,384
<b>Total fund balances</b>	<u>181,909</u>	<u>-</u>	<u>181,909</u>
<b>Total liabilities and fund balances</b>	<u>\$ 184,706</u>	<u>\$ -</u>	<u>\$ 184,706</u>
 Component unit fund balances			 \$ 181,909
Amounts reported for component unit 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 fund statement.			
Capital assets not being depreciated			150,000
Capital assets being depreciated, net			493,426
Certain liabilities, such as bonds payable, are not due and payable in the current and therefore are not reported in the funds.			
Bonds payable			(220,000)
Accrued interest on long-term debt			(1,526)
<b>Net position of component unit</b>			<u>\$ 603,809</u>

# CITY OF CHEBOYGAN, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Downtown Development Authority Component Unit

For the Year Ended June 30, 2014

	General Operations	Debt Service	Total
Revenues			
Property taxes	\$ 205,989	\$ -	\$ 205,989
Other revenue	11,848	-	11,848
Total revenues	217,837	-	217,837
Expenditures			
Current:			
Public works	159,527	-	159,527
Debt service:			
Principal	-	50,000	50,000
Interest	-	9,156	9,156
Total expenditures	159,527	59,156	218,683
Revenues over (under) expenditures	58,310	(59,156)	(846)
Other financing sources (uses)			
Transfers in	59,156	-	59,156
Transfers out	-	(59,156)	(59,156)
Total other financing sources (uses)	59,156	(59,156)	-
Change in fund balances	(846)	-	(846)
Fund balances, beginning of year	182,755	-	182,755
Fund balances, end of year	\$ 181,909	\$ -	\$ 181,909
Net change in fund balances - component unit			\$ (846)

Amounts reported for *component unit* 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 is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (21,109)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term debt 50,000

Change in net position of component unit \$ 28,045

## INTERNAL CONTROL AND COMPLIANCE

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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***

December 8, 2014

City Council  
City of Cheboygan  
Cheboygan, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Cheboygan, Michigan* (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2014.

#### 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 2014-FS-01 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 2014-FS-02 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 Cheboygan'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.

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

## CITY OF CHEBOYGAN, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2014

2014-FS-01 - Material Audit Adjustments.

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 CHEBOYGAN, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2014

#### Finding 2014-FS-02 - Segregation of Duties

Finding Type. Significant Deficiency in Internal Control over Financial Reporting

Criteria. All governmental units are required to establish an internal control structure with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the City's management. Adequate segregation of duties as it relates to the accounting function requires separation of the management, custody of assets and accounting functions.

Condition. The size of the City's accounting staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the City.

Cause. As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within all accounting functions.

Effect. As a result of this condition, the City's current system of internal control has limited safeguards in place to ensure that fraud or abuse is being prevented.

Recommendation. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls in the accounting function as it relates to billings, collections, receipts and with cash disbursements.

View of Responsible Officials. Due to the limited budget of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties within the accounting function. To the extent possible, duties are allocated between personnel to mitigate the risk of material misappropriation of assets or fraudulent financial reporting. Additionally, the City Council assumes a higher level of oversight responsibilities to help mitigate the risks related to this lack of segregation of duties.



## CITY OF CHEBOYGAN, MICHIGAN

### Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

Finding 2013-FS-1 - Recording, processing and summarizing data.

This is a repeat finding in the current year, see finding 2014-FS-01.

Finding 2013-FS-2 - Lack of segregation of duties exists in the accounting function.

This is a repeat finding in the current year, see finding 2014-FS-02.

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

December 8, 2014

Members of the City Council  
City of Cheboygan  
Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Cheboygan, Michigan* (the "City") as of and for the year ended June 30, 2014, and have issued our report thereon dated December 8, 2014. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated June 23, 2014, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 8, 2014. In addition, we noted certain other matters which are included in Attachment A to this letter.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on September 17, 2014.

**Compliance with All Ethics Requirements Regarding Independence**

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

## Qualitative Aspects of the City's Significant Accounting Practices

### *Significant Accounting Policies*

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

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

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

### *Significant Accounting Estimates*

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

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

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

## Significant Difficulties Encountered During the Audit

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

## Uncorrected and Corrected Misstatements

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

our audit procedures. The misstatements detected as a result of audit procedures and corrected by management are described in Attachment B to this letter.

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

#### Disagreements with Management

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

#### Representations Requested from Management

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

#### Management's Consultations with Other Accountants

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

#### Other Significant Matters, Findings, or Issues

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

#### Other Information in Documents Containing Audited Financial Statements

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

Upcoming Changes in Accounting Standards

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

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

*Rehmann Lohman LLC*

# CITY OF CHEBOYGAN, MICHIGAN

## Attachment A - Comments and Recommendations

For the June 30, 2014 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the City's internal control over financial reporting is described in our report, dated December 8, 2014, issued in accordance with Government Auditing Standards. This memorandum does not affect that report or our report dated December 8, 2014, on the financial statements of the City of Cheboygan, Michigan.

### Other Matters

#### *Bank Statement Reconciliation Review (repeat comment)*

The City does not currently have a policy requiring cash reconciliations to be reviewed by an individual other than the preparer. In order to enhance internal controls over this area, we recommend that all such reconciliations be reviewed monthly, and such review be evidenced by initialing and dating of the forms by the designated reviewer.

#### *Adherence to City Policies*

We noted certain instances in which the City's purchasing policy was not completely adhered to by not following the provisions of the bid process. We recommend that the City Management ensures that all City personnel are made aware of policies of the City and that ongoing monitoring occurs to ensure adherence to such policies.

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# CITY OF CHEBOYGAN, MICHIGAN

## Attachment B - Adjusting Journal Entries

For the June 30, 2014 Audit

Account Number	Account Description	Debit (Credit)
----------------	---------------------	----------------

### Fund level adjusting entries

#### Various Funds

101-301-943.000	Equip Rental, Police	\$ 6,500
101-751-943.000	Equip Rental, Parks	1,000
101-000-002.000	Cash, General Fund	(7,500)
202-463-943.000	Equip. Rental, Routine Maint.	10,000
202-000-002.000	Cash, Major Sts	(10,000)
591-575-943.000	Equip Rental, Water	13,000
591-000-002.000	Cash, Water	(13,000)
640-000-002.000	Cash, Equipment	30,500
640-000-642.000	Rental Revenue, G/F	(7,500)
640-000-643.000	Rental Revenue, Major St	(10,000)
640-000-646.000	Rental Revenue, Water	(13,000)

*To record 2013-2014 equipment fund transfer - Prepared by client.*

#### Major Street Fund

202-000-040.000	Accts. Receivable, Major Sts.	14,370
202-000-692.000	Trunkline Maint., Major Sts.	(14,370)

*To record fourth quarter trunkline receivable. - Prepared by client.*

#### Sewer Fund

590-000-140.000	Mach. & Equip., Sewer	53,667
590-555-727.000	Supplies, Sewer	(5,708)
590-555-801.000	Prof. Services, Sewer	(825)
590-555-970.000	Capital Outlay, Sewer	(47,134)

*To record current year fixed asset additions.*

590-555-968.000	Depreciation, Sewer	219,148
590-000-151.000	Depreciation, Sewer System	(121,311)
590-000-137.000	Accum. Deprec. -Bldg, Sewer	(59,918)
590-000-141.000	Accum. Deprec. Equip., Sewer	(37,919)

*To record depreciation.*

# CITY OF CHEBOYGAN, MICHIGAN

## Attachment B - Adjusting Journal Entries

For the June 30, 2014 Audit

Account Number	Account Description	Debit (Credit)
<b>Water Fund</b>		
591-000-300.000	Bonds Payable, 2007	\$ 25,000
591-000-301.000	2011 Rural Development Bond	51,000
591-000-999.000	Current Portion Long-term Debt	(76,000)
<i>To adjust current portion of long-term debt at June 30.</i>		
591-000-147.000	Construction In Process	58,700
591-575-970.000	Capital Outlay, Water	(58,700)
<i>To reclassify current year fixed asset additions.</i>		
591-000-147.000	Construction In Process	78,950
591-000-202.000	Accts. Payable, Water	(78,950)
<i>To record construction in process and related payable for amount still owed related to the Well #4 rebuild.</i>		
591-000-148.000	Water Systems	18,087
591-575-970.000	Capital Outlay, Water	(18,087)
<i>To reclassify current year fixed asset additions.</i>		
591-575-968.000	Depreciation, Water	167,973
591-000-149.000	Depreciation, Water Systems	(167,973)
<i>To record depreciation.</i>		
591-000-040.000	Accts. Receivable, Water	25,276
591-000-513.000	Grants, Water	(25,276)
<i>To record the winter 2013-2014 grant receivable.</i>		
<b>Equipment Fund</b>		
640-282-968.000	Depreciation, Equipment	74,318
640-000-141.000	Deprec Allow., Equipment	(71,236)
640-000-139.000	Deprec Allow, Bldgs, Equip	(3,082)
<i>To record depreciation.</i>		



# CITY OF CHEBOYGAN, MICHIGAN

## Attachment B - Adjusting Journal Entries

For the June 30, 2014 Audit

Account Number	Account Description	Debit (Credit)
640-000-324.000	Note Payable 2008 End Loader	\$ 37
640-000-325.000	Installment Payable Fire Eq 2011	28,256
640-000-326.000	Installment Purchase 2011 Street Sweeper	14,897
640-000-327.000	Installment Purchase Ice Resurfacer	2,189
640-282-995.000	Interest Exp, Equipment	(35)
640-000-999.000	Current Portion Notes Payable	(45,344)

*To adjust loan balances to actual.*

640-282-986.000	Principal, Ice Resurfacer	79
640-000-327.000	Installment Purchase Ice Resurfacer	(79)

*To reclassify principal payment made on long-term debt.*

640-000-140.000	Machinery & Equipment, Equipment	625
640-282-970.000	Capital Outlay, Equipment	(625)

*To adjust current year fixed asset additions.*

### Government-wide adjusting entries - City

934-000-189.000	Construction In Process	38,616
934-000-190.000	Land	343,216
934-000-191.000	Fixed Assets	23,143,403
934-000-195.000	OPEB Asset	10,235
934-000-225.000	Deferred Revenue	18,019
934-000-192.000	Accumulated Depreciation	(8,101,202)
934-000-224.000	Accrued Interest Payable	(58,119)
934-000-280.000	Compensated Absences	(149,071)
934-000-281.000	Long-Term Debt	(5,382,725)
934-000-282.000	Current Portion Long-term Debt	(442,328)
934-000-283.000	Current Portion Accrued Compensation	(78,808)
934-000-390.000	Net Assets, Unrestricted	(9,341,236)

*To establish the City's beginning government-wide balances to agree with prior year audit.*

934-172-002.000	General Government-Depreciation	93,754
934-301-002.000	Public Safety Exp-Depreciation	32,728
934-441-002.000	Public Works Exp-Depreciation	344,212
934-751-002.000	Culture And Recreation-Depreciation	120,406
934-000-192.000	Accumulated Depreciation	(591,100)

*To record depreciation expense for governmental activities.*

# CITY OF CHEBOYGAN, MICHIGAN

## Attachment B - Adjusting Journal Entries

For the June 30, 2014 Audit

Account Number	Account Description	Debit (Credit)
934-000-281.000	Long-Term Debt	\$ 442,328
934-125-000.000	Principal Expense	(442,328)
<i>To reclassify principal payments made on long-term debt.</i>		
934-000-281.000	Long-Term Debt	22,479
934-000-282.000	Current Portion Long-term Debt	(22,479)
<i>To reclassify current portion of long-term debt.</i>		
934-000-224.000	Accrued Interest Payable	3,615
934-125-001.000	Interest Expense	(3,615)
<i>To adjust accrued interest to actual.</i>		
934-751-000.000	Culture And Recreation	6,967
934-751-001.000	Culture And Recreation-Capital Outlay	(6,967)
<i>To reclassify capital outlay expense not capitalized in current year.</i>		
934-751-000.000	Culture And Recreation	14,308
934-000-189.000	Construction In Process	(14,308)
<i>To write off construction in process which does not belong to City (trails - 2010).</i>		
934-000-191.000	Fixed Assets	100,100
934-000-189.000	Construction In Process	(24,308)
934-172-000.000	General Government	(75,792)
<i>To record current year fixed asset additions.</i>		
934-000-405.000	Personal property taxes	2,517
934-000-225.000	Deferred Revenue	(2,517)
<i>To recognize the change in the delinquent personal property taxes on the full accrual basis.</i>		
934-661-000.000	Internal Service Activity	51,908
934-301-000.000	Public Safety	(13,508)
934-441-000.000	Public Works	(37,449)
934-751-000.000	Culture And Recreation	(951)
<i>To eliminate the Equipment Fund operating loss.</i>		

# CITY OF CHEBOYGAN, MICHIGAN

## Attachment B - Adjusting Journal Entries

For the June 30, 2014 Audit

Account Number	Account Description	Debit (Credit)
934-751-000.000	Culture And Recreation	\$ 1,858
934-000-280.000	Compensated Absences	94,424
934-172-000.000	General Government	(7,862)
934-441-000.000	Public Works	(31,255)
934-301-000.000	Public Safety	(57,165)

*To record change in accrued compensated absences.*

934-000-283.000	Current Portion Accrued Compensation	14,250
934-000-280.000	Compensated Absences	(14,250)

*To reclassify the estimated current portion of accrued compensated absences.*

934-000-195.000	OPEB Asset	16,598
934-172-000.000	General Government	(2,988)
934-301-000.000	Public Safety	(5,145)
934-441-000.000	Public Works	(6,141)
934-751-000.000	Culture And Recreation	(2,324)

*To adjust the other post employment benefit asset to the June, 2014 valuation.*

### Government-wide adjusting entries - DDA

935-000-190.000	Land	150,000
935-000-191.000	Fixed Assets	574,267
935-000-192.000	Accumulated Depreciation	(59,732)
935-000-224.000	Accrued Interest Payable	(1,526)
935-000-281.000	Long-Term Debt	(220,000)
935-000-282.000	Current Portion Long-term Debt	(50,000)
935-000-390.000	Net Assets, Unrestricted	(393,009)

*To establish the DDA's beginning government-wide balances to agree with prior year audit.*

935-441-002.000	Public Works-Depreciation	21,109
935-000-192.000	Accumulated Depreciation	(21,109)

*To record depreciation expense.*

935-000-281.000	Long-Term Debt	50,000
935-125-000.000	Principal Expense	(50,000)

*To record payments on long-term debt.*

# CITY OF CHEBOYGAN

## Attachment C - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2014 Audit

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

### **GASB 68 ■ Accounting and Financial Reporting for Pensions**

*Effective 06/15/2015 (your FY 2015)*

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

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

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

While GASB 68 is only applicable to pension plans, the GASB has released exposure drafts that would implement similar requirements for other postemployment benefits (e.g., retiree healthcare) within the next few years.

# CITY OF CHEBOYGAN

## ■ Attachment C - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2014 Audit

### **GASB 69 ■ Government Combinations and Disposals of Government Operations**

*Effective 12/15/2014 (your FY 2015)*

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

Given the infrequent nature of these types of events, we do not expect this standard to have any impact on the City at this time.

### **GASB 71 ■ Pension Transition for Contributions Made Subsequent to the Measurement Date**

*Effective with the Implementation of GASB 68*

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

### **2 CFR 200 ■ Uniform Guidance for Federal Awards**

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

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000 (up from \$500,000). The OMB has indicated that further changes to the single audit will be announced in 2015.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls that are consistent with the COSO framework and documented procedures for grant administration. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

■ ■ ■ ■ ■

## CITY OF CHEBOYGAN, MICHIGAN

### Attachment D - Management Representations

For the June 30, 2014 Audit

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



# CITY OF CHEBOYGAN

P.O. Box 39 • 403 North Huron • Cheboygan, Michigan 49721 • 231-627-9931

[www.cheboygan.org](http://www.cheboygan.org) • TDD: 231-597-0315 • Fax Phone: 231-627-6351 • Department of Public Safety: 231-627-4321 • Crime Stoppers: 1-800-465-STOP

December 8, 2014

Rehmann Robson  
902 S Huron Street  
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Cheboygan, Michigan** (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund of the City in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 8, 2014:

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 23, 2014, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

## MISSION STATEMENT

*The Mission of the City of Cheboygan is to promote economic opportunity and enhance quality of life through innovative commitment of human and natural resources with continued planning, financial allocation, and implementation of goals by responsive staff, and elected and appointed officials.*



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

#### Information Provided

22. We have provided you with:
  - e. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - f. Additional information that you have requested from us for the purpose of the audit; and
  - g. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.



24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
25. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the City's financial statements communicated by employees, former employees, vendors, regulators, or others.
27. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
28. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.
29. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
30. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
31. We have disclosed to you all guarantees, whether written or oral, under which the City is contingently liable.
32. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
33. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
34. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
35. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
36. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### Supplementary Information in Relation to the Financial Statements as a Whole

37. With respect to the supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

**Required Supplementary Information**

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

  
Kenneth J. Kwiatkowski  
City of Cheboygan, Clerk-Treasurer

  
Nicholas Couture  
City of Cheboygan, City Council

# CITY OF CHEBOYGAN

## Schedule of Adjustments Passed (SOAP)

For the June 30, 2014 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
<b>General Fund</b>					
Underaccrual of payroll and fringes	\$ -	\$ (4,923)	\$ -	\$ -	\$ (4,923)
<b>Governmental Activities</b>					
Construction in progress removed in current year which was not a part of City's assets	-	-	14,308	-	14,308
Cumulative effect of items noted above (GA)	<u>\$ -</u>	<u>\$ (4,923)</u>	<u>\$ 14,308</u>	<u>\$ -</u>	<u>\$ 9,385</u>
<b>Business-type Activities</b>					
<b>Water Fund</b>					
2013 unbilled consumption recorded in 2014	\$ -	\$ -	\$ (19,539)	\$ 19,539	\$ -
2014 unbilled consumption recorded in 2015	<u>(31,113)</u>	<u>-</u>	<u>-</u>	<u>(31,113)</u>	<u>-</u>
Total Water Fund	<u>(31,113)</u>	<u>-</u>	<u>(19,539)</u>	<u>(11,574)</u>	<u>-</u>
<b>Sewer Fund</b>					
2013 unbilled consumption recorded in 2014	-	-	(37,863)	37,863	-
2014 unbilled consumption recorded in 2015	<u>(45,823)</u>	<u>-</u>	<u>-</u>	<u>(45,823)</u>	<u>-</u>
Total Sewer Fund	<u>(45,823)</u>	<u>-</u>	<u>(37,863)</u>	<u>(7,960)</u>	<u>-</u>
Cumulative effect of items noted above (BTA)	<u>\$ (76,936)</u>	<u>\$ -</u>	<u>\$ (57,402)</u>	<u>\$ (19,534)</u>	<u>\$ -</u>