

City of
Charlevoix,
Michigan



Fiscal Year
Ended
March 31, 2019

Financial
Statements

CITY OF CHARLEVOIX, MICHIGAN

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CITY OF CHARLEVOIX, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

Mayor	Luther Kurtz
Council Member	Aaron Hagen
Council Member	Janet Kalbfell
Council Member	Leon Perron
Council Member	Tom Oleksy
Council Member	Shane Cole
Council Member	Greg Bryan

Appointed Officials

City Manager	Mark Heydlauff
Attorney	Scott Howard
Clerk	Joyce Golding
Treasurer	Kelly McGinn
Planning Director	Sarah Lucas
Zoning Administrator	Jonathan Scheel
Police Chief	Gerard Doan
EMS Director	Don McMullen
DPW Superintendent	Pat Elliott
Electric Superintendent	Donald Swem
Wastewater Chief Operator	Randall Wurst
Water Treatment Chief Operator	Shelley Mayer
DDA Director	Lindsey Dotson
Airport Manager	Matt Wyman
Harbormaster	Pat Klooster
Recreation Director	Kent Knorr

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INDEPENDENT AUDITORS' REPORT

September 30, 2019

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Charlevoix, as of March 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

As management of the City of Charlevoix, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2019.

Financial Highlights

- The City's total net position increased to approximately \$66,797,000 at the end of the current fiscal year compared to approximately \$66,082,000 at the end of the prior period. The primary government's total net position increased by approximately \$715,000. Net position of governmental activities decreased by approximately \$168,000. Net position of business-type activities increased by approximately \$883,000.
- The assets and deferred outflows of resources of the City (primary government) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$66,797,000 (net position). Of this amount, approximately \$11,980,000 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- At March 31, 2019, the City's governmental funds reported combined ending fund balances of approximately \$3,028,000, an increase of approximately \$116,000 from the prior year. Approximately 39% of these combined ending fund balances or approximately \$1,175,000 is unassigned and is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$1,175,000 or 25% percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis and the schedules for the City's pension plan.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$66,797,000 at the close of the most recent fiscal year.

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

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 4,013,135	\$ 4,177,679	\$ 15,771,454	\$ 14,798,938	\$ 19,784,589	\$ 18,976,617
Capital assets, net	29,193,911	29,762,819	39,302,963	39,961,778	68,496,874	69,724,597
	<u>33,207,046</u>	<u>33,940,498</u>	<u>55,074,417</u>	<u>54,760,716</u>	<u>88,281,463</u>	<u>88,701,214</u>
Deferred outflows of resources	448,730	326,746	665,102	439,465	1,113,832	766,211
Liabilities						
Other liabilities	430,837	381,136	988,988	1,060,663	1,419,825	1,441,799
Long-term debt	3,598,166	3,742,707	12,191,091	12,943,157	15,789,257	16,685,864
Net pension liability	2,327,610	2,687,622	2,704,880	2,285,640	5,032,490	4,973,262
	<u>6,356,613</u>	<u>6,811,465</u>	<u>15,884,959</u>	<u>16,289,460</u>	<u>22,241,572</u>	<u>23,100,925</u>
Deferred inflows of resources	164,858	153,735	191,581	130,742	356,439	284,477
Net position						
Net investment in capital assets	26,328,287	26,396,395	27,255,509	27,180,212	53,583,796	53,576,607
Restricted	837,398	752,568	396,074	381,927	1,233,472	1,134,495
Unrestricted (deficit)	(31,380)	153,081	12,011,396	11,217,840	11,980,016	11,370,921
Total net position	<u>\$ 27,134,305</u>	<u>\$ 27,302,044</u>	<u>\$ 39,662,979</u>	<u>\$ 38,779,979</u>	<u>\$ 66,797,284</u>	<u>\$ 66,082,023</u>

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities. For its governmental activities, the City is able to report positive balances in two of the three categories of net position, with a small deficit of approximately \$31,000 in unrestricted net position.

The following condensed financial information was derived from the government-wide statement of activities and reflects how the City's net position changed during the fiscal year:

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues						
Charges for services	\$ 1,449,244	\$ 915,952	\$ 11,570,758	\$ 10,844,608	\$ 13,020,002	\$ 11,760,560
Operating grants and contributions	608,397	587,942	403,102	389,687	1,011,499	977,629
Capital grants and contributions	-	-	330,340	1,571,318	330,340	1,571,318
General revenues						
Property taxes	3,097,523	3,037,259	-	-	3,097,523	3,037,259
State shared revenue	257,524	291,430	-	-	257,524	291,430
Other revenues	281,133	12,579	-	-	281,133	12,579
Gain on sale of capital assets	10,500	6,148	-	-	10,500	6,148
Unrestricted investment earnings	19,691	20,457	-	-	19,691	20,457
Total revenues	5,724,012	4,871,767	12,304,200	12,805,613	18,028,212	17,677,380
Expenses:						
Legislative	53,053	56,166	-	-	53,053	56,166
General government	799,561	736,232	-	-	799,561	736,232
Public safety	860,997	1,232,129	-	-	860,997	1,232,129
Public works	1,256,398	962,188	-	-	1,256,398	962,188
Health and welfare	1,231,903	540,299	-	-	1,231,903	540,299
Recreation and culture	1,240,025	1,099,244	-	-	1,240,025	1,099,244
Interest expense	95,329	106,569	-	-	95,329	106,569
Electric utility	-	-	5,237,880	5,639,452	5,237,880	5,639,452
Sewage disposal utility	-	-	2,133,627	1,762,447	2,133,627	1,762,447
Water utility	-	-	1,409,483	1,131,404	1,409,483	1,131,404
Marina	-	-	1,097,246	1,059,142	1,097,246	1,059,142
Airport	-	-	1,897,449	1,492,045	1,897,449	1,492,045
Total expenses	5,537,266	4,732,827	11,775,685	11,084,490	17,312,951	15,817,317

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Change in net position before transfers	\$ 186,746	\$ 138,940	\$ 528,515	\$ 1,721,123	\$ 715,261	\$ 1,860,063
Transfers	(354,485)	(371,629)	354,485	371,629	-	-
Change in net position	(167,739)	(232,689)	883,000	2,092,752	715,261	1,860,063
Net position:						
Beginning of year	27,302,044	27,534,733	38,779,979	36,687,227	66,082,023	64,221,960
End of year	<u>\$ 27,134,305</u>	<u>\$ 27,302,044</u>	<u>\$ 39,662,979</u>	<u>\$ 38,779,979</u>	<u>\$ 66,797,284</u>	<u>\$ 66,082,023</u>

Concluded

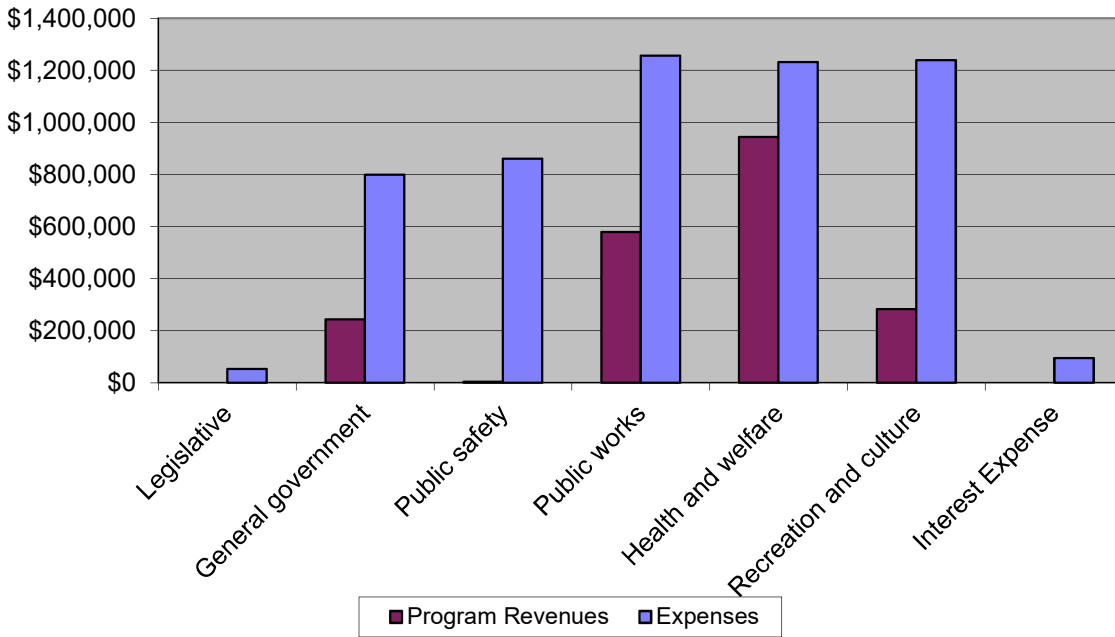
Governmental Activities. Governmental activities decreased the City's net position by approximately \$168,000. Key elements of this decrease are as follows:

- Total governmental activities revenue increased by approximately \$987,000 or 20.26% compared to prior year, with the most significant increase in charges for services of approximately \$668,000 and other revenues of \$269,000. The charges for services increase is attributable to ambulance services; the City showed a significant increase in both number of runs and longer transports. The changes in other revenue is attributable to the recovery of 2018 expenditures, which were subsequently reclassified to business-type activities.
- Total expenses for governmental activities increased by approximately \$939,000 compared to prior year, with the most significant cost increase in health and welfare of approximately \$826,000 primarily due to an increase in ambulance wages and benefits and per diems to provide staffing for additional runs and longer transports of \$407,000 and bad debt expense of \$153,000 required to increase the City's allowance of uncollectible ambulance receivables. Public safety expenditures decreased approximately \$371,000 primarily due to the pension adjustment related to the GASB 68. The increase in public works expenditures was also due to the pension adjustment related to GASB 68.

CITY OF CHARLEVOIX, MICHIGAN

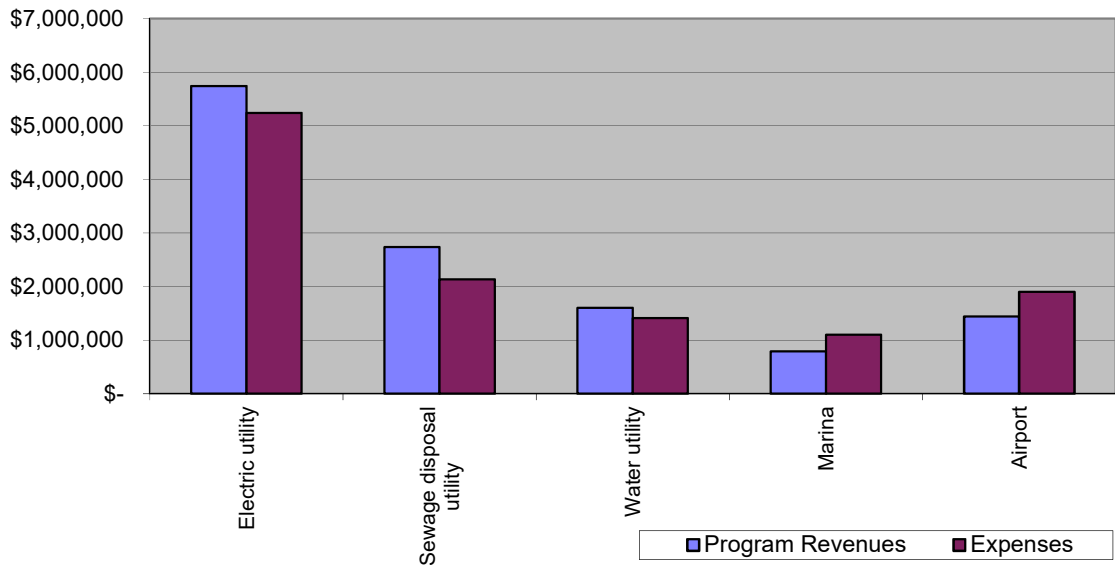
Management's Discussion and Analysis

Program Revenues and Expenses - Governmental Activities



Business-type Activities. Net position of the business-type activities increased by approximately \$883,000 in fiscal 2019 as compared to an increase of approximately \$2,093,000 in fiscal 2018. This reduction in positive impact on the business-type activities net position is mainly attributable to a decrease in capital grants and contributions of approximately \$1,241,000 as prior year projects were significantly completed in the prior year.

Program Revenues and Expenses - Business-type Activities



CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3,028,000, an increase of approximately \$116,000 from the prior year. This increase was attributable primarily to other revenue in the infrastructure improvement fund related to a cost recovery of 2018 expenditures, which were subsequently transferred to business-type activities offset by a net decrease related to ambulance services in the general fund of approximately \$234,000 due to the increase in revenue from additional runs being outpaced by the increase in expenditures to provide these services. A significant portion of the fund balances, approximately \$1,175,000, constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balances is either nonspendable, restricted or assigned to indicate that it is not available for new spending.

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

Unrestricted net positions of the enterprise funds at the end of the year amounted to approximately \$10,052,000 and the net investment in capital assets was approximately \$26,661,000. The changes in enterprise fund net positions were as follows:

- Electric utility activities increased its net position by approximately \$432,000. This was attributable to the operating revenues exceeding operating expenses by approximately \$515,000 of which a portion (\$151,200) was transferred out to the DPW site fund. The reduction in operating expenditures was caused by a decrease in employee fringe benefits of approximately \$231,000 and a decrease in purchased power of \$389,000.
- Sewage disposal utility activities increased its net position by approximately \$754,000. This was attributable mainly to the excess of charges for services over the expenses by \$585,000 and state revenue of approximately \$330,000. The state revenue is from the state's Stormwater Asset Management grant for infrastructure improvements.
- Water utility activities increased its net position by approximately \$323,000, due an increase in charges for services of approximately \$253,000 related to a rate increase and an increase in employee fringe benefit expenses of approximately \$236,000 mainly related to the GASB 68 pension adjustment.
- Marina activities had a negative impact on its net position by approximately \$306,000, primarily due to its transfer of \$158,000 from the DDA not covering the entire bond payment.
- Airport activities had a negative impact on its net position by approximately \$449,000, primarily due an increase in jet fuel costs of \$206,000, an increase in fringe benefits costs of \$71,000 due to replacing part-time employees with full-time employees and an increase in depreciation expense of \$67,000.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

During the year, General Fund revenues were higher than budgetary estimates by approximately \$71,000 or 1.69% and expenditures were higher than budgetary estimates by approximately \$190,000 or 4.31%. Revenues were more than anticipated due additional ambulance runs totaling \$200,000 offset by less revenue than anticipated in ambulance contracts of \$73,000 and property tax revenue of approximately \$43,000. The most significant budget variances in expenditures were related to ambulance activities due to increased costs related to additional runs and longer transports.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2019, amounted to approximately \$68,497,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

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

- Vehicle and vehicle equipment purchases of approximately \$523,000.
- Sewer infrastructure including the SAW Grant project of approximately \$513,000.
- Engineering for the new DPW building site of approximately \$454,000.
- Water infrastructure of approximately \$359,000.
- Server upgrades of approximately \$162,000.
- Dock pedestals at the Marina for approximately \$87,000.

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 16,932,797	\$ 16,932,797	\$ 1,569,534	\$ 1,569,534	\$ 18,502,331	\$ 18,502,331
Construction in progress	50,262	621,704	663,050	826,978	713,312	1,448,682
Land improvements	1,631,947	1,700,102	13,210,914	13,019,254	14,842,861	14,719,356
Infrastructure	5,762,099	5,722,949	-	-	5,762,099	5,722,949
Buildings and improvements	2,873,931	3,045,824	14,541,912	14,738,432	17,415,843	17,784,256
System improvements	-	-	8,929,842	9,508,270	8,929,842	9,508,270
Machinery and equipment	721,546	679,403	387,711	299,310	1,109,257	978,713
Vehicles	1,221,329	1,060,040	-	-	1,221,329	1,060,040
Total capital assets, net	\$ 29,193,911	\$ 29,762,819	\$ 39,302,963	\$ 39,961,778	\$ 68,496,874	\$ 69,724,597

Additional information on the City's capital assets can be found in the notes (see note 6) to the financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City (primary government) had bonds related to the construction of the marina with a balance of approximately \$3,497,000, including bond premium, and capital improvement bonds with a balance of \$3,375,000, including bond premium. The City has pledged its full faith and credit towards the above obligations. Additionally, the City issued revenue bonds in the previous year to fund the wastewater treatment plant improvement project with an amount still outstanding at year end of approximately \$8,695,000.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
2016 Capital improvement bonds	\$ 3,035,000	\$ 3,230,000	\$ -	\$ -	\$ 3,035,000	\$ 3,230,000
Marina limited tax general obligation bonds	-	-	3,160,000	3,490,000	3,160,000	3,490,000
Sewage disposal utility fund revenue bonds	-	-	8,694,562	9,074,562	8,694,562	9,074,562
Deferred amounts- Issuance premiums	340,105	368,447	336,529	378,595	676,634	747,042
Compensated absences	223,061	144,260	-	-	223,061	144,260
Total	\$ 3,598,166	\$ 3,742,707	\$ 12,191,091	\$ 12,943,157	\$ 15,789,257	\$ 16,685,864

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is approximately \$25.1 million, which is in excess of the City's outstanding general obligation debt.

In addition, the City offers its full-time employees a retirement pension through the Municipal Employees' Retirement System of Michigan (MERS). Based on the latest annual actuarial valuation report from MERS dated December 31, 2018, the City's plan is 62% funded, compared to 64% funded in the previous year.

Additional information on the City's long-term debt can be found in the notes (see footnote 9) to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2018-19 fiscal year:

- The unemployment rate for Michigan is currently 4.3% and the national average rate is 3.7%.
- The local, state and national economies continue to slowly improve. The City's taxable values have stabilized as foreclosures have decreased and new construction projects within the City have started to increase.
- The tax collection rate for the 2019-20 fiscal year are expected to be comparable to fiscal year 2018-19 at 99% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.

CITY OF CHARLEVOIX, MICHIGAN

Management's Discussion and Analysis

- For the 2019 tax year, the operating millage of 9.05 mills remained the same as the 2018 tax year to enable the same level of service to taxpayers provided by the General Fund. The infrastructure millage remained at 2.0028 mills. The refuse millage (PA 213) remained at 1.0 mills. Overall, the 2019 tax rates remained consistent with 2018.
- Sewer rates charged for services in fiscal year 2019-20 remained the same as the fiscal year 2018-19 rates.
- Water rates charged for services in fiscal year 2019-20 increased 6.5% from the fiscal year 2018-19 rates.
- Electric rates for fiscal year 2019-20 remained unchanged from fiscal year 2018-19.
- Wage rates increased 2% for Police Officers Labor Council (POLC) union employees, 2.5% for Communications Workers of America (CWA) union employees per their labor contracts with the City. The City's non-union employees received a 2.5% rate increase effective April 2019.
- The employee fringe benefit fund rates remained constant for 2019-20.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position

March 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,870,636	\$ 10,379,771	\$ 13,250,407	\$ 418,675
Cash at fiscal agent	60,700	561,882	622,582	-
Investments	876,200	1,903,800	2,780,000	50,000
Deposit held by Michigan Public Power Agency	-	396,074	396,074	-
Receivables, net	587,530	1,317,959	1,905,489	13,395
Internal balances	(470,206)	470,206	-	-
Other assets	88,275	441,762	530,037	455
Restricted investments	-	300,000	300,000	-
Capital assets not being depreciated	16,983,059	2,232,584	19,215,643	923,071
Capital assets being depreciated, net	12,210,852	37,070,379	49,281,231	2,308,846
Total assets	33,207,046	55,074,417	88,281,463	3,714,442
Deferred outflows of resources				
Deferred charge on bond refunding	-	143,637	143,637	-
Deferred pension amounts	448,730	521,465	970,195	-
Total deferred outflows of resources	448,730	665,102	1,113,832	-
Liabilities				
Accounts payable and accrued liabilities	397,703	970,861	1,368,564	36,046
Unearned revenue	33,134	18,127	51,261	7,497
Long-term debt:				
Due within one year	254,070	772,066	1,026,136	-
Due in more than one year	3,344,096	11,419,025	14,763,121	-
Net pension liability, due in more than one year	2,327,610	2,704,880	5,032,490	-
Total liabilities	6,356,613	15,884,959	22,241,572	43,543
Deferred inflows of resources				
Deferred pension amounts	164,858	191,581	356,439	-
Net position				
Net investment in capital assets	26,328,287	27,255,509	53,583,796	3,231,917
Restricted for:				
Perpetual care	436,035	-	436,035	-
Street improvements	401,363	-	401,363	-
Energy purchases	-	396,074	396,074	-
Downtown development	-	-	-	438,982
Unrestricted (deficit)	(31,380)	12,011,396	11,980,016	-
Total net position	\$ 27,134,305	\$ 39,662,979	\$ 66,797,284	\$ 3,670,899

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities For the Year Ended March 31, 2019

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 53,053	\$ -	\$ -	\$ -	\$ (53,053)
General government	799,561	244,112	-	-	(555,449)
Public safety	860,997	-	4,525	-	(856,472)
Public works	1,256,398	-	580,037	-	(676,361)
Health and welfare	1,231,903	945,097	-	-	(286,806)
Recreation and culture	1,240,025	260,035	23,835	-	(956,155)
Interest	95,329	-	-	-	(95,329)
Total governmental activities	5,537,266	1,449,244	608,397	-	(3,479,625)
Business-type activities:					
Electric utility	5,237,880	5,697,027	41,532	-	500,679
Sewage disposal utility	2,133,627	2,389,628	16,995	330,340	603,336
Water utility	1,409,483	1,598,456	4,696	-	193,669
Marina	1,097,246	447,829	339,879	-	(309,538)
Airport	1,897,449	1,437,818	-	-	(459,631)
Total business-type activities	11,775,685	11,570,758	403,102	330,340	528,515
Total primary government	\$ 17,312,951	\$ 13,020,002	\$ 1,011,499	\$ 330,340	\$ (2,951,110)
Component unit					
Downtown Development Authority	\$ 809,019	\$ 79,307	\$ 38,890	\$ -	\$ (690,822)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Activities

For the Year Ended March 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net revenue (expense)	\$ (3,479,625)	\$ 528,515	\$ (2,951,110)	\$ (690,822)
General revenues:				
Property taxes	3,097,523	-	3,097,523	456,432
State shared revenues	257,524	-	257,524	-
Other revenue	281,133	-	281,133	-
Gain on sale of capital assets	10,500	-	10,500	-
Unrestricted investment earnings	19,691	-	19,691	-
Transfers - internal activities	(354,485)	354,485	-	-
Total general revenues and transfers	3,311,886	354,485	3,666,371	456,432
Change in net position	(167,739)	883,000	715,261	(234,390)
Net position, beginning of year	27,302,044	38,779,979	66,082,023	3,905,289
Net position, end of year	\$ 27,134,305	\$ 39,662,979	\$ 66,797,284	\$ 3,670,899

Concluded

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

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FUND FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet
 Governmental Funds
 March 31, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 536,514	\$ 1,356,878	\$ 1,893,392
Cash at fiscal agent	-	60,700	60,700
Investments	400,000	276,200	676,200
Accounts receivable, net	316,926	1,058	317,984
Taxes receivable	51,627	21,708	73,335
Due from other governmental units	55,236	121,649	176,885
Interest receivable	9,995	2,881	12,876
Prepays	37,273	-	37,273
Total assets	\$ 1,407,571	\$ 1,841,074	\$ 3,248,645
Liabilities			
Accounts payable	\$ 98,991	\$ 18,929	\$ 117,920
Accrued liabilities	64,677	5,904	70,581
Unearned revenue	31,369	617	31,986
Total liabilities	195,037	25,450	220,487
Fund balances			
Nonspendable	37,273	436,035	473,308
Restricted	-	910,844	910,844
Assigned	-	468,745	468,745
Unassigned	1,175,261	-	1,175,261
Total fund balances	1,212,534	1,815,624	3,028,158
Total liabilities and fund balances	\$ 1,407,571	\$ 1,841,074	\$ 3,248,645

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
March 31, 2019

Fund balances - total governmental funds	\$ 3,028,158
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	16,983,059
Capital assets being depreciated, net	12,210,852
Capital assets accounted for in motor vehicle internal service fund, net	(1,465,950)
Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	2,412,919
Net position allocated to business-type activities from governmental activities internal service funds	(470,206)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period and do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(2,327,610)
Deferred outflows of resources related to the net pension liability	448,730
Deferred inflows of resources related to the net pension liability	(164,858)
Certain non-current liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences - sick leave	(84,984)
Interest payable on long-term debt	(60,700)
Bonds payable and related premiums	(3,375,105)
Net position of governmental activities	<u>\$ 27,134,305</u>

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

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balances

Governmental Funds

For the Year Ended March 31, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,398,904	\$ 698,619	\$ 3,097,523
State revenue	258,757	539,318	798,075
Licenses and permits	7,485	-	7,485
Charges for services	1,222,198	4,425	1,226,623
Fines and forfeitures	16,435	-	16,435
Interest	6,254	7,639	13,893
Rents and royalties	176,118	7,395	183,513
Other revenue	60,367	263,081	323,448
Total revenues	4,146,518	1,520,477	5,666,995
Expenditures			
Current:			
Legislative	52,444	-	52,444
General government	603,076	6,501	609,577
Public safety	1,052,208	-	1,052,208
Public works	245,351	505,914	751,265
Health and welfare	1,271,246	-	1,271,246
Recreation and culture	1,205,522	980	1,206,502
Other expenditures	34,535	-	34,535
Debt service:			
Principal	-	195,000	195,000
Interest	-	129,471	129,471
Total expenditures	4,464,382	837,866	5,302,248
Revenues (under) over expenditures	(317,864)	682,611	364,747
Other financing sources (uses)			
Transfers in	2,500	419,891	422,391
Transfers out	(8,991)	(662,025)	(671,016)
Total other financing uses	(6,491)	(242,134)	(248,625)
Net change in fund balances	(324,355)	440,477	116,122
Fund balances, beginning of year	1,536,889	1,375,147	2,912,036
Fund balances, end of year	\$ 1,212,534	\$ 1,815,624	\$ 3,028,158

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

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended March 31, 2019

Net change in fund balances - total governmental funds \$ 116,122

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

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

Capital assets purchased/constructed	183,632
Capital assets transferred to business-type activities	(327,825)
Depreciation expense	(656,617)

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

Principal payment	195,000
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Internal service funds are used by management to charge the costs of certain employee benefits and equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from governmental activities accounted for in internal service funds	(238,775)
Change in net position from governmental activities accounted for internal service funds charged to business-type activities	132,912

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

Change in the net pension liability and related deferred amounts	470,873
Bond premium amortization	28,342
Change in accrued interest	5,800
Net decrease in compensated absences - sick leave	(77,203)

Change in net position of governmental activities	\$ (167,739)
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The accompanying notes are an integral part of these basic financial statements.

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual - General Fund For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property taxes	\$ 2,347,700	\$ 2,407,604	\$ 2,364,324	\$ (43,280)
Payments in lieu of taxes	13,200	13,200	3,860	(9,340)
Interest and penalties on taxes	8,000	8,000	7,214	(786)
Tax collection fees	18,000	18,000	23,506	5,506
Total taxes	<u>2,386,900</u>	<u>2,446,804</u>	<u>2,398,904</u>	<u>(47,900)</u>
State revenue	<u>256,100</u>	<u>258,835</u>	<u>258,757</u>	<u>(78)</u>
Licenses and permits	<u>6,200</u>	<u>6,245</u>	<u>7,485</u>	<u>1,240</u>
Charges for services:				
Ambulance runs	359,700	774,241	839,205	64,964
Ambulance contracts	92,000	179,242	105,892	(73,350)
Cemetery	35,000	39,050	39,043	(7)
Golf course	93,600	95,390	94,543	(847)
Summer sports	6,500	6,875	6,728	(147)
Day camp	46,000	48,395	47,998	(397)
Winter sports	55,000	55,000	48,487	(6,513)
Skate park	800	1,125	1,125	-
Parking	39,000	34,487	32,511	(1,976)
Other	6,700	6,700	6,666	(34)
Total charges for services	<u>734,300</u>	<u>1,240,505</u>	<u>1,222,198</u>	<u>(18,307)</u>
Fines and forfeitures	<u>21,300</u>	<u>21,300</u>	<u>16,435</u>	<u>(4,865)</u>
Interest	<u>2,500</u>	<u>2,500</u>	<u>6,254</u>	<u>3,754</u>
Rents and royalties:				
City hall	147,500	148,400	148,600	200
Boat launch/harbor building	28,700	28,700	27,215	(1,485)
Skate park	500	500	303	(197)
Total rents and royalties	<u>176,700</u>	<u>177,600</u>	<u>176,118</u>	<u>(1,482)</u>
Other revenue	<u>56,500</u>	<u>56,442</u>	<u>60,367</u>	<u>3,925</u>
Total revenues	<u>3,640,500</u>	<u>4,210,231</u>	<u>4,146,518</u>	<u>(63,713)</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Legislative:				
City council	\$ 45,400	\$ 54,038	\$ 52,444	\$ (1,594)
General government:				
Mayor	8,200	5,694	4,287	(1,407)
City manager	109,850	114,860	113,200	(1,660)
Elections	33,800	34,741	27,593	(7,148)
Assessor	60,300	77,037	66,545	(10,492)
City attorney	34,100	30,320	40,402	10,082
City clerk	44,100	46,742	37,707	(9,035)
City treasurer	70,400	78,561	64,276	(14,285)
City hall and grounds	153,000	177,347	170,485	(6,862)
Cemetery	96,100	97,956	78,581	(19,375)
Total general government	609,850	663,258	603,076	(60,182)
Public safety:				
Police department	812,300	798,576	787,055	(11,521)
Parking law enforcement	7,500	10,621	10,033	(588)
Fire department	208,900	207,280	194,620	(12,660)
Planning department	55,500	58,933	60,500	1,567
Total public safety	1,084,200	1,075,410	1,052,208	(23,202)
Public works:				
Highways and streets	300	300	217	(83)
Leaf pick up	161,500	158,737	154,750	(3,987)
Waste collection	55,700	55,720	58,047	2,327
Brush pickup	56,700	51,268	32,337	(18,931)
Total public works	274,200	266,025	245,351	(20,674)

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (Continued)				
Health and welfare:				
Ambulance	\$ 531,200	\$ 1,045,819	\$ 1,271,246	\$ 225,427
Recreation and culture:				
Parks	523,000	561,762	524,614	(37,148)
Recreation administration	148,100	137,513	130,175	(7,338)
City beaches	12,750	14,312	8,259	(6,053)
Ball fields	24,400	18,549	14,395	(4,154)
Day camp	72,000	64,311	51,074	(13,237)
Ice rink	8,900	9,631	3,832	(5,799)
Mt. McSauba ski hill	135,200	136,738	142,388	5,650
Basketball and volleyball	3,700	4,510	3,155	(1,355)
Golf course	281,400	275,207	263,074	(12,133)
Boat launch	81,300	27,922	27,287	(635)
Skate park	7,900	5,260	5,355	95
Community promotion	22,700	22,650	31,914	9,264
Total recreation and culture	1,321,350	1,278,365	1,205,522	(72,843)
Other expenditures	37,200	26,137	34,535	8,398
Total expenditures	3,903,400	4,409,052	4,464,382	55,330
Revenues under expenditures	(262,900)	(198,821)	(317,864)	(119,043)
Other financing sources (uses)				
Transfers in	2,500	2,500	2,500	-
Transfers out	(26,000)	(15,000)	(8,991)	(6,009)
Total other financing sources (uses)	(23,500)	(12,500)	(6,491)	(6,009)
Net change in fund balance	(286,400)	(211,321)	(324,355)	(113,034)
Fund balance, beginning of year	1,536,889	1,536,889	1,536,889	-
Fund balance, end of year	\$ 1,250,489	\$ 1,325,568	\$ 1,212,534	\$ (113,034)

Concluded

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Net Position
 Proprietary Funds
 March 31, 2019

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,440,169	\$ 3,993,862	\$ 660,056	\$ 59,839
Investments	1,420,700	38,400	44,700	-
Cash at fiscal agent	-	498,682	-	63,200
Deposits held by Michigan Public Power Agency	396,074	-	-	-
Accounts receivable, net	863,096	247,536	138,038	46
Interest receivable	19,186	216	229	1,041
Prepays	5,503	2,352	1,632	385
Inventories	328,134	-	84,049	-
Total current assets	7,472,862	4,781,048	928,704	124,511
Noncurrent assets:				
Restricted investments	75,000	75,000	75,000	75,000
Advance to other funds	608,000	-	-	-
Capital assets, not being depreciated	319,160	375,115	23,848	-
Capital assets, net of accumulated depreciation	3,542,757	14,478,760	5,062,241	6,227,093
Total noncurrent assets	4,544,917	14,928,875	5,161,089	6,302,093
Total assets	12,017,779	19,709,923	6,089,793	6,426,604
Deferred outflows of resources				
Deferred charge on bond refunding	-	-	-	143,637
Deferred pension amounts	265,977	83,039	128,414	5,601
Total deferred outflows of resources	265,977	83,039	128,414	149,238
Liabilities				
Current liabilities:				
Accounts payable	336,707	65,569	53,960	5,191
Accrued liabilities	24,195	119,822	11,190	64,599
Customer deposits	52,817	-	-	101,273
Current portion of bonds and notes payable	-	390,000	-	382,066
Current portion of compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Total current liabilities	413,719	575,391	65,150	553,129
Noncurrent liabilities:				
Advance from other funds	-	-	-	543,000
Bonds payable, net of current portion	-	8,304,562	-	3,114,463
Compensated absences, net of current portion	-	-	-	-
Net pension liability	1,379,641	430,732	666,096	29,052
Total noncurrent liabilities	1,379,641	8,735,294	666,096	3,686,515
Total liabilities	1,793,360	9,310,685	731,246	4,239,644
Deferred inflows of resources				
Deferred pension amounts	97,717	30,508	47,178	2,058
Net position				
Net investment in capital assets	3,861,917	6,159,313	5,086,089	2,874,201
Restricted for:				
Energy purchases	396,074	-	-	-
Unrestricted (deficit)	6,134,688	4,292,456	353,694	(540,061)
Total net position	\$ 10,392,679	\$ 10,451,769	\$ 5,439,783	\$ 2,334,140

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



Business-type Activities - Enterprise Funds		Internal Service Funds
Airport	Total	
\$ 42,978	\$ 9,196,904	\$ 2,160,111
-	1,503,800	600,000
-	561,882	-
-	396,074	-
39,389	1,288,105	2,617
-	20,672	13,015
4,725	14,597	51,002
14,982	427,165	-
<u>102,074</u>	<u>13,409,199</u>	<u>2,826,745</u>
-	300,000	-
-	608,000	-
960,066	1,678,189	575,048
<u>7,719,239</u>	<u>37,030,090</u>	<u>1,485,586</u>
<u>8,679,305</u>	<u>39,616,279</u>	<u>2,060,634</u>
<u>8,781,379</u>	<u>53,025,478</u>	<u>4,887,379</u>
-	143,637	-
38,434	521,465	-
<u>38,434</u>	<u>665,102</u>	<u>-</u>
25,684	487,111	224,378
7,282	227,088	26,696
-	154,090	-
-	772,066	-
-	-	845
18,127	18,127	1,148
<u>51,093</u>	<u>1,658,482</u>	<u>253,067</u>
65,000	608,000	-
-	11,419,025	-
-	-	137,232
199,359	2,704,880	-
<u>264,359</u>	<u>14,731,905</u>	<u>137,232</u>
<u>315,452</u>	<u>16,390,387</u>	<u>390,299</u>
<u>14,120</u>	<u>191,581</u>	<u>-</u>
8,679,305	26,660,825	2,060,634
-	396,074	-
(189,064)	10,051,713	2,436,446
<u>\$ 8,490,241</u>	<u>\$ 37,108,612</u>	<u>\$ 4,497,080</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-type Activities
March 31, 2019

Net position - total enterprise funds \$ 37,108,612

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

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

Net position of business-type activities accounted for in business-type activity internal service funds	2,084,161
Net position allocated to business-type activities from governmental activities internal service funds	<u>470,206</u>

Net position of business-type activities \$ 39,662,979

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

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position
 Proprietary Funds
 For the Year Ended March 31, 2019

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Operating revenues				
Charges for services	\$ 5,697,027	\$ 2,389,628	\$ 1,598,456	\$ 447,829
Operating expenses				
Purchased power	2,954,234	-	-	-
Fuel purchases	-	-	-	-
Personnel services	1,090,922	743,113	737,572	178,070
Contractual services	103,375	168,774	65,705	43,259
Insurance	16,824	13,872	4,520	2,861
Building rental	76,700	35,400	35,400	-
Equipment rental	173,455	82,071	90,447	2,507
Supplies	59,090	57,278	67,734	6,679
Utilities	62,594	109,642	45,144	71,471
Repairs and maintenance	99,985	22,402	44,939	15,260
Depreciation	473,121	553,104	278,115	650,240
Miscellaneous	71,238	19,144	6,525	8,629
Total operating expenses	5,181,538	1,804,800	1,376,101	978,976
Operating income (loss)	515,489	584,828	222,355	(531,147)
Nonoperating revenues (expenses)				
Interest revenue	41,532	10,254	4,696	1,879
(Loss) gain on sale of capital assets	-	(78,351)	-	-
Other revenue	-	-	-	338,000
Interest expense	-	(217,364)	-	(115,089)
Total nonoperating revenues (expenses)	41,532	(285,461)	4,696	224,790
Income (loss) before transfers and capital contributions	557,021	299,367	227,051	(306,357)
Transfers				
Transfers in	29,140	167,555	131,130	-
Transfers out	(153,700)	(43,440)	(35,400)	-
Total transfers	(124,560)	124,115	95,730	-
Capital contributions				
State revenue	-	330,340	-	-
Change in net position	432,461	753,822	322,781	(306,357)
Net position, beginning of year	9,960,218	9,697,947	5,117,002	2,640,497
Net position, end of year	\$ 10,392,679	\$ 10,451,769	\$ 5,439,783	\$ 2,334,140

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

Business-type Activities - Enterprise Funds		Internal Service Funds
Airport	Total	
\$ 1,437,818	\$ 11,570,758	\$ 3,379,605
-	2,954,234	-
908,215	908,215	-
301,014	3,050,691	2,991,945
27,605	408,718	75,388
10,192	48,269	-
-	147,500	-
3,034	351,514	-
5,464	196,245	91,714
29,389	318,240	12,046
12,800	195,386	104,201
506,808	2,461,388	294,272
81,204	186,740	3,900
<u>1,885,725</u>	<u>11,227,140</u>	<u>3,573,466</u>
<u>(447,907)</u>	<u>343,618</u>	<u>(193,861)</u>
-	58,361	12,539
-	(78,351)	10,500
-	338,000	40,719
<u>(900)</u>	<u>(333,353)</u>	<u>-</u>
<u>(900)</u>	<u>(15,343)</u>	<u>63,758</u>
<u>(448,807)</u>	<u>328,275</u>	<u>(130,103)</u>
-	327,825	269,200
-	(232,540)	(115,860)
-	95,285	153,340
-	330,340	-
<u>(448,807)</u>	<u>753,900</u>	<u>23,237</u>
<u>8,939,048</u>	<u>36,354,712</u>	<u>4,473,843</u>
<u>\$ 8,490,241</u>	<u>\$ 37,108,612</u>	<u>\$ 4,497,080</u>

CITY OF CHARLEVOIX, MICHIGAN

Reconciliation

Change in Fund Net Position of Enterprise Funds
to Change in Net Position of Business-type Activities
For the Year Ended March 31, 2019

Change in net position - total enterprise funds	\$ 753,900
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Amounts reported for *business-type activities* in the statement of activities are different because:

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

Change in net position of internal service funds charged to business-type activities	262,012
Change in net position of internal service funds accounted for in governmental activities but charged to business-type activities	<u>(132,912)</u>

Change in net position of business-type activities	<u>\$ 883,000</u>
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The accompanying notes are an integral part of these basic financial statements.

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CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2019

	Business-type Activities - Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Cash flows from operating activities				
Cash received from customers	\$ 5,628,774	\$ 2,493,242	\$ 1,578,501	\$ 453,677
Cash received from interfund services	-	-	-	-
Cash payments to employees	(1,194,758)	(595,625)	(576,603)	(133,144)
Cash payments to suppliers for goods and services	(3,711,391)	(600,549)	(397,654)	(178,145)
Net cash provided by operating activities	722,625	1,297,068	604,244	142,388
Cash flows from noncapital financing activities				
Other receipts	-	-	-	338,000
Transfers in	29,140	167,555	131,130	-
Transfers out	(153,700)	(43,440)	(35,400)	-
Net cash provided by (used in) noncapital financing activities	(124,560)	124,115	95,730	338,000
Cash flows from capital and related financing activities				
State receipts	-	330,340	-	-
Proceeds from sale of capital assets	-	-	-	-
Purchase of capital assets	(318,528)	(605,888)	(406,465)	(87,118)
Repayment on interfund advances	-	-	-	(50,000)
Bond principal payments	-	(380,000)	-	(330,000)
Bond and advance interest payments	-	(212,613)	-	(139,201)
Net cash used in capital and related financing activities	(318,528)	(868,161)	(406,465)	(606,319)
Cash flows from investing activities				
Purchase of investments	4,884	-	-	-
Receipt of amounts from advance to other funds	75,000	-	-	-
Interest received	34,254	11,783	3,920	1,390
Net cash provided by investing activities	114,138	11,783	3,920	1,390
Net increase (decrease) in cash and cash equivalents	393,675	564,805	297,429	(124,541)
Cash and cash equivalents, beginning of year	4,442,568	3,927,739	362,627	247,580
Cash and cash equivalents, including cash at fiscal agent and deposit held by MPPA, beginning of year	4,836,243	4,492,544	660,056	123,039
Cash at fiscal agent, end of year	-	(498,682)	-	(63,200)
Deposit held by MPPA, end of year	(396,074)	-	-	-
Cash and cash equivalents, end of year	\$ 4,440,169	\$ 3,993,862	\$ 660,056	\$ 59,839

Business-type Activities - Enterprise Funds		Internal Service Funds
Airport	Total	
\$ 1,437,874	\$ 11,592,068	\$ -
-	-	3,461,065
(292,401)	(2,792,531)	(2,996,551)
<u>(1,066,415)</u>	<u>(5,954,154)</u>	<u>(203,093)</u>
79,058	2,845,383	261,421
-	338,000	40,719
-	327,825	269,200
-	<u>(232,540)</u>	<u>(115,860)</u>
-	433,285	194,059
-	330,340	-
-	-	10,500
(12,450)	(1,430,449)	(976,649)
(25,000)	(75,000)	-
-	(710,000)	-
<u>(900)</u>	<u>(352,714)</u>	<u>-</u>
<u>(38,350)</u>	<u>(2,237,823)</u>	<u>(966,149)</u>
-	4,884	-
-	75,000	-
-	51,347	10,589
-	131,231	10,589
40,708	1,172,076	(500,080)
<u>2,270</u>	<u>8,982,784</u>	<u>2,660,191</u>
42,978	10,154,860	2,160,111
-	(561,882)	-
-	<u>(396,074)</u>	<u>-</u>
<u>\$ 42,978</u>	<u>\$ 9,196,904</u>	<u>\$ 2,160,111</u>

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended March 31, 2019

	Business-type Activities Enterprise Funds			
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 515,489	\$ 584,828	\$ 222,355	\$ (531,147)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	473,121	553,104	278,115	650,240
Changes in assets and liabilities that provided (used) cash:				
Accounts receivable	(58,559)	103,614	(19,955)	(19)
Prepays	(4,193)	(972)	(322)	-
Inventory	(56,732)	-	(7,812)	(385)
Deposits held by Michigan Public Power Agency	(14,147)	-	-	-
Accounts payable	(18,824)	(86,243)	(29,106)	(1,585)
Accrued liabilities	2,952	(8,695)	3,247	(6,092)
Net pension liability and related deferred amounts	(106,788)	151,432	157,722	25,509
Customer deposits	(9,694)	-	-	5,867
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Net cash provided by operating activities	<u>\$ 722,625</u>	<u>\$ 1,297,068</u>	<u>\$ 604,244</u>	<u>\$ 142,388</u>

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

Business-type Activities Enterprise Funds		Internal Service Funds
Airport	Total	
\$ (447,907)	\$ 343,618	\$ (193,861)
506,808	2,461,388	294,272
527	25,608	7
(430)	(5,917)	(1,820)
22,083	(42,846)	-
-	(14,147)	-
(10,973)	(146,731)	167,661
808	(7,780)	(6,204)
8,613	236,488	-
-	(3,827)	-
-	-	1,598
(471)	(471)	(232)
<u>\$ 79,058</u>	<u>\$ 2,845,383</u>	<u>\$ 261,421</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2019

Assets

Cash

\$ 74,991

Liabilities

Undistributed receipts

\$ 74,991

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues reported in the governmental funds to be available if they are collected within three months after year-end, except for property taxes that use a 60-day collection period, and reimbursement-based grants that use a one year collection 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 fund:

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

The City reports the following major proprietary funds:

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

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Additionally, the City reports the following fund types:

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

Capital projects 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 projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

The *debt service fund* accounts for financial resources that are restricted, committed or assigned to expenditure for principal, interest and other related costs.

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

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

The *agency fund* accounts for resources held in a trustee or agent capacity.

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

Deposits and investments

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

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

Cash at fiscal agent consists of amounts paid to a financial institution for bond payments due April 1 of the subsequent fiscal year.

Deposits held by the Michigan Public Power Agency (MPPA) consist of amounts from over-charges on power sales contract agreements. These funds are held in trust at Fifth Third Bank, trustee with Delegated Investment Management for MPPA. They are invested and managed according to PA 20 and MPPA's governing Investment Policy. Since the City of Charlevoix is the asset owner, these funds are recorded as current assets on both the proprietary and the business-type activities statements of net position.

Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of March 31, 2019, the General Fund receivable is shown net of an estimated allowance for uncollectible accounts of \$309,000. The receivables for the Electric Utility, Sewage Disposal Utility and Water Utility Funds are also shown net of estimated allowance for uncollectible accounts of \$4,635, \$810 and \$1,145, respectively.

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Inventory

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

Restricted investments

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired or constructed since June 30, 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at estimated acquisition cost as of the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City reports deferred items related to its pension plan as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables/payables (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 and business-type activities are reported in the government-wide financial statements as internal balances.

Compensated absences

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

Long-term obligations

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Deferred inflows of resources

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

Fund balances

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

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

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

The City is reporting a deficit unrestricted net position of \$540,061 and \$189,064 in the Marina and Airport enterprise funds, respectively; however, total net position for each fund is not in a deficit. Management is looking at ways to increase revenues and decrease expenses in these funds so that they can eliminate the related deficit.

Interfund transactions

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended March 31, 2019, the City incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
General government:			
City attorney	\$ 30,320	\$ 40,402	\$ 10,082
Public safety:			
Planning department	58,933	60,500	1,567
Public works:			
Waste collection	55,720	58,047	2,327
Health and welfare:			
Ambulance	1,045,819	1,271,246	225,427
Recreation and culture:			
Mt. McSauba ski hill	136,738	142,388	5,650
Skate park	5,260	5,355	95
Community promotion	22,650	31,914	9,264
Other expenditures	26,137	34,535	8,398

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of March 31, 2019:

	Primary Government	Component Unit	Total
Statement of Net Position			
Cash and cash equivalents	\$ 13,250,407	\$ 418,675	\$ 13,669,082
Cash at fiscal agent	622,582	-	622,582
Investments	2,780,000	50,000	2,830,000
Deposits held by Michigan Public Power Agency	396,074	-	396,074
Restricted investments	300,000	-	300,000
Total Statement of Net Position	\$ 17,349,063	\$ 468,675	17,817,738
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents			74,991
Total			\$ 17,892,729

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Deposits and investments	
Bank deposits (checking and savings accounts)	\$ 13,743,167
Certificates of deposits:	
Maturing in less than 1 year	1,006,897
Maturing in more than 1 year	2,123,103
Cash with fiscal agent	622,582
Deposits held by Michigan Public Power Agency	396,074
Petty cash	906
	<hr/>
Total	<u>\$ 17,892,729</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, approximately \$15,633,000 of the City's bank balance of approximately \$16,914,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

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

4. RECEIVABLES

Receivables are comprised of the following as of March 31, 2019:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 629,601	\$ 1,294,695	\$ 13,395
Taxes receivable	73,335	-	-
Interest receivable	16,709	29,854	-
Due from other governmental units	176,885	-	-
Allowance for uncollectible accounts	(309,000)	(6,590)	-
	<u>\$ 587,530</u>	<u>\$ 1,317,959</u>	<u>\$ 13,395</u>

5. OTHER ASSETS

Other assets consisted of the following amounts at March 31, 2019:

	Governmental Activities	Business-type Activities	Component Units
Prepays	\$ 88,275	\$ 14,597	\$ 455
Inventories	-	427,165	-
Totals	<u>\$ 88,275</u>	<u>\$ 441,762</u>	<u>\$ 455</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

6. CAPITAL ASSETS

Primary Government

Capital assets activity for the primary government for the year ended March 31, 2019, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 16,932,797	\$ -	\$ -	\$ -	\$ 16,932,797
Construction in progress	621,704	24,244	-	(595,686)	50,262
	<u>17,554,501</u>	<u>24,244</u>	<u>-</u>	<u>(595,686)</u>	<u>16,983,059</u>
Capital assets being depreciated:					
Land improvements	3,848,967	14,603	-	-	3,863,570
Infrastructure	6,862,058	80,410	-	267,861	7,210,329
Buildings and improvements	7,425,935	7,473	-	-	7,433,408
Machinery and equipment	2,306,518	165,920	(38,450)	-	2,433,988
Vehicles	3,576,548	413,925	(13,611)	-	3,976,862
	<u>24,020,026</u>	<u>682,331</u>	<u>(52,061)</u>	<u>267,861</u>	<u>24,918,157</u>
Less accumulated depreciation for:					
Land improvements	(2,148,865)	(82,758)	-	-	(2,231,623)
Infrastructure	(1,139,109)	(309,121)	-	-	(1,448,230)
Buildings and improvements	(4,380,111)	(179,366)	-	-	(4,559,477)
Machinery and equipment	(1,627,115)	(123,777)	38,450	-	(1,712,442)
Vehicles	(2,516,508)	(252,636)	13,611	-	(2,755,533)
	<u>(11,811,708)</u>	<u>(947,658)</u>	<u>52,061</u>	<u>-</u>	<u>(12,707,305)</u>
Total capital assets being depreciated, net	<u>12,208,318</u>	<u>(265,327)</u>	<u>-</u>	<u>267,861</u>	<u>12,210,852</u>
Governmental activities capital assets, net	<u>\$ 29,762,819</u>	<u>\$ (241,083)</u>	<u>\$ -</u>	<u>\$ (327,825)</u>	<u>\$ 29,193,911</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 1,569,534	\$ -	\$ -	\$ -	\$ 1,569,534
Construction in progress	826,978	263,260	-	(427,188)	663,050
	<u>2,396,512</u>	<u>263,260</u>	<u>-</u>	<u>(427,188)</u>	<u>2,232,584</u>
Capital assets being depreciated:					
Land improvements	22,080,798	443,024	-	717,663	23,241,485
Buildings and improvements	19,861,177	445,111	-	37,350	20,343,638
System improvements	27,586,332	240,980	(203,640)	-	27,623,672
Machinery and equipment	2,556,975	163,955	(38,041)	-	2,682,889
	<u>72,085,282</u>	<u>1,293,070</u>	<u>(241,681)</u>	<u>755,013</u>	<u>73,891,684</u>
Less accumulated depreciation for:					
Land improvements	(9,061,544)	(969,027)	-	-	(10,030,571)
Buildings and improvements	(5,122,745)	(678,981)	-	-	(5,801,726)
System improvements	(18,078,062)	(741,057)	125,289	-	(18,693,830)
Machinery and equipment	(2,257,665)	(75,554)	38,041	-	(2,295,178)
	<u>(34,520,016)</u>	<u>(2,464,619)</u>	<u>163,330</u>	<u>-</u>	<u>(36,821,305)</u>
Total capital assets being depreciated, net	<u>37,565,266</u>	<u>(1,171,549)</u>	<u>(78,351)</u>	<u>755,013</u>	<u>37,070,379</u>
Business-type activities capital assets, net	<u>\$ 39,961,778</u>	<u>\$ (908,289)</u>	<u>\$ (78,351)</u>	<u>\$ 327,825</u>	<u>\$ 39,302,963</u>

Depreciation expense for the year ended March 31, 2019 was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
General government	\$ 187,382
Public safety	53,847
Public works	344,525
Recreation and culture	69,679
Health and welfare	1,184
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>291,041</u>
	<u>\$ 947,658</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Depreciation of business-type activities by function	
Electric utility	\$ 473,121
Sewage disposal utility	553,104
Water utility	278,115
Marina	650,240
Airport	506,808
Capital assets held by the business-type activity internal service fund are charged to the various functions based on their usage of the assets	3,231
	\$ 2,464,619

Discretely presented component unit

Capital assets activity for the Downtown Development Authority ("DDA") component unit for the year ended March 31, 2019, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 923,071	\$ -	\$ -	\$ -	\$ 923,071
Capital assets being depreciated:					
Land Improvements	2,505,198	43,995	-	-	2,549,193
Buildings and improvements	3,897,817	-	-	-	3,897,817
Machinery and equipment	68,305	-	-	-	68,305
	6,471,320	43,995	-	-	6,515,315
Less accumulated depreciation for:					
Land improvements	(1,656,422)	(99,898)	-	-	(1,756,320)
Buildings and improvements	(2,293,164)	(89,478)	-	-	(2,382,642)
Machinery and equipment	(64,320)	(3,187)	-	-	(67,507)
	(4,013,906)	(192,563)	-	-	(4,206,469)
Total capital assets being depreciated, net	2,457,414	(148,568)	-	-	2,308,846
Component unit capital assets, net	\$ 3,380,485	\$ (148,568)	\$ -	\$ -	\$ 3,231,917

Depreciation expense for the component unit, included in the statement of activities, was \$192,563 for fiscal year 2019.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following as of March 31, 2019:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 239,726	\$ 589,683	\$ 36,046
Accrued liabilities	97,277	227,088	-
Accrued interest	60,700	-	-
Customer deposits	-	154,090	-
	<u>\$ 397,703</u>	<u>\$ 970,861</u>	<u>\$ 36,046</u>

8. INTERFUND ADVANCES

The composition of interfund advances as of March 31, 2019, was as follows:

	Advance to Other Funds	Advance From Other Funds
Electric Utility Fund	\$ 608,000	\$ -
Marina Fund	-	543,000
Airport Fund	-	65,000
	<u>\$ 608,000</u>	<u>\$ 608,000</u>

During the year ended March 31, 2009, the Electric Utility Fund advanced a total of \$700,000 to the Marina Fund to cover planned additional costs on the marina and park area reconstruction project that was substantially complete in July 2008. This advance is to be repaid over eight years with interest charged at 0.5%. During fiscal year ended March 31, 2012, the Electric Utility Fund advanced a total of \$160,000 to the Airport Fund to cover initial costs of airport operations and for cash flow purposes. Interest is charged at 0.5% on this advance and became due annually beginning in fiscal year 2013 with principal to be repaid over six years, however, the City did not begin making payments until fiscal year 2016. During fiscal year 2019, the Electric Utility Fund received principal and interest payments of \$50,000 and \$5,930, respectively, from the Marina Fund and principal and interest payments of \$25,000 and \$900, respectively, from the Airport Fund.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

For the year ended March 31, 2019, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 2,500	\$ 8,991
Nonmajor Governmental Funds	419,891	662,025
Electric Utility Fund	29,140	153,700
Sewage Disposal Utility Fund	167,555	43,440
Water Utility Fund	131,130	35,400
Internal Service Funds	269,200	115,860
	<u>\$ 1,019,416</u>	<u>\$ 1,019,416</u>

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary government					
Governmental activities:					
2016 capital					
improvement bonds	\$ 3,230,000	\$ -	\$ 195,000	\$ 3,035,000	\$ 200,000
Deferred amounts- Bond premiums	368,447	-	28,342	340,105	28,342
Compensated absences - sick leave	7,781	107,245	30,042	84,984	24,883
Compensated absences - vacation	136,479	182,987	181,389	138,077	845
Total governmental activities	3,742,707	290,232	434,773	3,598,166	254,070
Business-type activities:					
Marina - 2016 refunding					
bonds	3,490,000	-	330,000	3,160,000	340,000
Revenue bonds	9,074,562	-	380,000	8,694,562	390,000
Total installment debt	12,564,562	-	710,000	11,854,562	730,000
Deferred amounts- Bond premiums	378,595	-	42,066	336,529	42,066
Total business-type activities	12,943,157	-	752,066	12,191,091	772,066
Total primary government	\$ 16,685,864	\$ 290,232	\$ 1,186,839	\$ 15,789,257	\$ 1,026,136

Revenue bonds. In 2015, the City issued revenue bonds totaling \$9,900,000 to fund the improvements to the City's wastewater treatment plant. These are 20-year bonds that bear interest at the rate of 2.50%. The first principal payment was due April 1, 2017. The City receives the bond proceeds as the stages of the wastewater treatment plant improvement project are completed. As of March 31, 2019, the City has received bond proceeds in the amount of \$9,459,562. No proceeds were received in fiscal 2019.

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Compensated absences related to accrued sick in governmental activities are generally liquidated by the General Fund.

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

Purpose	Matures	Interest Rates	Amount
Governmental activities			
2016 capital improvement bonds	October 2030	4.0% - 4.2%	\$ 3,035,000
Premium on bonds	October 2030		340,105
			<u>\$ 3,375,105</u>
Business-type activities			
Marina - 2016 refunding bonds	April 2027	2.0% - 4.0%	\$ 3,160,000
Premium on Marina refunding bonds			336,529
Sewer - revenue bonds	April 2036	2.5%	8,694,562
			<u>\$ 12,191,091</u>

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

Year Ending March 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 200,000	\$ 121,400	\$ 321,400	\$ 730,000	\$ 339,014	\$ 1,799,014
2021	210,000	113,400	323,400	755,000	315,414	1,825,414
2022	220,000	105,000	325,000	780,000	291,089	1,851,089
2023	225,000	105,000	330,000	805,000	291,089	1,876,089
2024	235,000	87,200	322,200	830,000	239,889	1,069,889
2025-2029	1,330,000	287,000	1,617,000	3,620,000	795,271	4,415,271
2030-2034	615,000	37,200	652,200	2,610,000	316,040	2,926,040
2035-2037	-	-	-	1,724,562	21,927	1,746,489
	<u>\$ 3,035,000</u>	<u>\$ 856,200</u>	<u>\$ 3,891,200</u>	<u>\$ 11,854,562</u>	<u>\$ 2,609,733</u>	<u>\$ 14,464,295</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

10. OPERATING LEASE AND COMMITMENT

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, in which BIBCO has a conditional right of renewal it may exercise five times for five years with each renewal. The City has also signed a \$22,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note payable for the construction of a storage building, which approximates \$22,000 as of March 31, 2019. Projected operating lease proceeds through the year ended 2028 are as follows:

Year Ended March 31,	Amount
2020	\$ 30,070
2021	31,215
2022	32,401
2023	33,628
2024	41,156
2025-2028	<u>178,237</u>
	<u>\$ 346,707</u>

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers’ compensation), as well as medical benefits provided to employees. During the year ended March 31, 2019, the City carried insurance through various commercial carriers, including the Michigan Municipal League and Michigan Township Participating Plan, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. PROPERTY TAXES

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

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2017 levy was assessed and equalized at \$251,277,141 (not including properties subject to Industrial Facilities Tax exemption), representing 50 percent of estimated current market value. The City’s general operating tax rate for fiscal year 2018-19 was 9.0500 mills, with an additional 2.0028 mills levied for infrastructure improvements and an additional 1.0000 mill levied for refuse.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Charlevoix, which are within the DDA district. The DDA also has an operating levy of 1.3580 mills. Property taxes are recognized in the fiscal year in which they are levied.

Tax Abatements

Industrial property tax abatements are granted by the State of Michigan under public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 25%, 50%, or 100% of the local property tax millage rate for a period of up to 12 years, depending on the agreement. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. Property taxes abated by the City of Charlevoix, in fiscal 2019, was \$6,868 for IFT abatements.

13. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

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

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 year period) and multipliers ranging from 1.50% to 2.50%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service. Member contributions range from 0.00% to 3.00% of covered wages as presented in the table below.

Employees Covered by Benefit Terms. At December 31, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>51</u>
Total membership	<u><u>103</u></u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions are expressed as a percentage of payroll as summarized in the following table:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
Comm Workers	Defined Benefit	Open	18.75%	3.00%
Non-Union	Defined Benefit	Open	18.54%	0.00%
Police Officers	Defined Benefit	Open	8.48%	3.00%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3.00%-4.00%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	55.50%	6.15%	3.41%
Global fixed income	18.50%	1.26%	0.23%
Real assets	13.50%	7.22%	0.51%
Diversifying strategies	12.50%	5.00%	0.63%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2018, consistent with the rate used in the prior year. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Changes in Net Pension Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2017	\$ 13,698,851	\$ 8,725,589	\$ 4,973,262
Changes for the year:			
Service cost	195,891	-	195,891
Interest	1,064,162	-	1,064,162
Differences between expected and actual experience	(355,886)	-	(355,886)
Employer contributions	-	870,485	(870,485)
Employee contributions	-	50,842	(50,842)
Net investment loss	-	(339,125)	339,125
Benefit payments, including refunds of employee contributions	(989,540)	(989,540)	-
Administrative expense	-	(16,877)	16,877
Other changes	(279,614)	-	(279,614)
Net changes	<u>(364,987)</u>	<u>(424,215)</u>	<u>59,228</u>
Balances at December 31, 2018	<u>\$ 13,333,864</u>	<u>\$ 8,301,374</u>	<u>\$ 5,032,490</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 6,413,158	\$ 5,032,490	\$ 3,854,031

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

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended March 31, 2019, the City recognized pension expense of \$557,893. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 89,279	\$ 356,439	\$ (267,160)
Changes in assumptions	129,674	-	129,674
Net difference between projected and actual earnings on pension plan investments	626,646	-	626,646
	<u>845,599</u>	<u>356,439</u>	<u>489,160</u>
Contributions subsequent to the measurement date	124,596	-	124,596
	<u>124,596</u>	<u>-</u>	<u>124,596</u>
Total	<u>\$ 970,195</u>	<u>\$ 356,439</u>	<u>\$ 613,756</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending March 31, 2019. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended March 31,	Amount
2020	\$ 306,058
2021	(2,823)
2022	50,351
2023	<u>135,574</u>
Total	<u>\$ 489,160</u>

Payable to the Pension Plan. At March 31, 2019, the City had no amounts payable for contributions to the pension plan.

For the governmental activities, the net pension liability is generally liquidated by the General Fund.

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

14. DEFINED CONTRIBUTION PLAN

The City provided pension benefits to its City Manager through a defined contribution plan, “City of Charlevoix City Manager Money Purchase Plan.” In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributed 21.60% of the City Manager’s gross earnings to the plan or provides this percentage as an increase to annual compensation or a combination of both, at the discretion of the City Manager. The City contributed \$20,087 to the Plan during the year ended March 31, 2019. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2019.

15. ENTITLEMENT COMMITMENT

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

The City has entered into contracts with MPPA for the City’s electric entitlement share of the Campbell No. 3 generating capacities of 2074(kw) and the Combustion Turbine No. 1 and AFEC Project generating electrical output of 55(mw) and 180(mw), respectively.

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

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

Year Ended December 31,	Combustion Turbine No. 1		Campbell Project Bank	
	Principal	Interest	Principal	Interest
2019	\$ 73,160	\$ 40,309	\$ 211,327	\$ 11,091
2020	76,700	36,651	215,807	6,224
2021	80,712	32,816	109,353	1,252
2022	84,724	28,780	-	-
2023	88,736	24,544	-	-
2024-2027	402,144	51,506	-	-
Total	\$ 806,176	\$ 214,606	\$ 536,487	\$ 18,567

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

Year Ended December 31,	AFEC Project		Total	
	Principal	Interest	Principal	Interest
2019	\$ 20,349	\$ 47,073	\$ 304,836	\$ 98,473
2020	21,157	46,158	313,664	89,033
2021	22,126	45,205	212,191	79,273
2022	23,256	44,099	107,980	72,879
2023	24,387	42,936	113,123	67,480
2024-2028	140,507	196,217	140,507	196,217
2029-2033	179,105	157,698	179,105	157,698
2034-2038	228,362	108,237	228,362	108,237
2039-2043	291,509	45,139	291,509	45,139
Total	\$ 950,758	\$ 732,762	\$ 1,891,277	\$ 914,429

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The City's share of this trust fund was approximately \$396,000 at March 31, 2019 and is reported as Deposit with the Michigan Public Power Agency in the Statement of Net Position.

16. COMMITMENTS

The City has entered into several contracts for goods and services including certain infrastructure and capital improvement projects. The total commitment related to these various contracts is as follows at March 31, 2019:

Public service facility design	\$ 286,700
Server project	129,707
Airport taxilane and fencing improvement project design	585,507
Airport taxilane and fencing improvement project	<u>488,230</u>
Total	<u>\$ 1,490,144</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of March 31, 2019, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 16,983,059	\$ 2,232,584	\$ 923,071
Capital assets being depreciated, net	12,210,852	37,070,379	2,308,846
	<u>29,193,911</u>	<u>39,302,963</u>	<u>3,231,917</u>
Less related debt:			
Noncurrent liabilities:			
Due within one year	(254,070)	(772,066)	-
Due in more than one year	(3,344,096)	(11,419,025)	-
Add back: compensated absences	223,061	-	-
Add back: deferred charge on bond refunding	-	143,637	-
Add back: unexpended bond proceeds	509,481	-	-
	<u>(2,865,624)</u>	<u>(12,047,454)</u>	<u>-</u>
Net investment in capital assets	<u>\$ 26,328,287</u>	<u>\$ 27,255,509</u>	<u>\$ 3,231,917</u>

CITY OF CHARLEVOIX, MICHIGAN

Notes to the Financial Statements

18. FUND BALANCES - GOVERNMENTAL FUNDS

Detailed information on fund balances of governmental funds at March 31, 2019 is as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Perpetual care	\$ -	\$ 436,035	\$ 436,035
Prepays	37,273	-	37,273
Total nonspendable	37,273	436,035	473,308
Restricted:			
Special revenue funds:			
Major streets	-	258,770	258,770
Local streets	-	10,020	10,020
Capital project funds:			
Street improvements	-	132,573	132,573
Infrastructure improvements	-	509,481	509,481
Total restricted	-	910,844	910,844
Assigned:			
Capital project funds:			
Fire truck and ambulance	-	344,631	344,631
Industrial park	-	28,835	28,835
Mt. McSauba improvements	-	25,853	25,853
Debt service fund:			
Debt service infrastructure	-	69,426	69,426
Total assigned	-	468,745	468,745
Unassigned	1,175,261	-	1,175,261
Total fund balances, governmental funds	\$ 1,212,534	\$ 1,815,624	\$ 3,028,158



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended December 31			
	2019	2018	2017	2016
Total pension liability				
Service cost	\$ 195,891	\$ 156,135	\$ 165,666	\$ 167,849
Interest	1,064,162	1,034,166	1,028,535	976,917
Differences between expected and actual experience	(355,886)	144,372	(179,328)	85,473
Changes of assumptions	-	-	-	648,378
Benefit payments, including refunds of employee contributions	(989,540)	(969,686)	(909,054)	(815,464)
Other changes	(279,614)	-	(341)	-
Net change in total pension liability	(364,987)	364,987	105,478	1,063,153
Total pension liability, beginning of year	13,698,851	13,333,864	13,228,386	12,165,233
Total pension liability, end of year	13,333,864	13,698,851	13,333,864	13,228,386
Plan fiduciary net position				
Employer contributions	870,485	337,044	311,253	303,782
Employee contributions	50,842	47,103	46,738	53,025
Net investment (loss) income	(339,125)	1,063,210	880,516	(124,534)
Benefit payments, including refunds of employee contributions	(989,540)	(969,686)	(909,054)	(815,464)
Administrative expense	(16,877)	(16,887)	(17,408)	(18,424)
Net change in plan fiduciary net position	(424,215)	460,784	312,045	(601,615)
Plan fiduciary net position, beginning of year	8,725,589	8,264,805	7,952,760	8,554,375
Plan fiduciary net position, end of year	8,301,374	8,725,589	8,264,805	7,952,760
City's net pension liability	\$ 5,032,490	\$ 4,973,262	\$ 5,069,059	\$ 5,275,626
Plan fiduciary net position as a percentage of total pension liability	62.26%	63.70%	61.98%	60.12%
Covered payroll	\$ 2,893,241	\$ 2,334,109	\$ 2,444,252	\$ 2,601,560
City's net pension liability as a percentage of covered payroll	173.94%	213.07%	207.39%	202.79%

Notes:

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

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

CITY OF CHARLEVOIX, MICHIGAN

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

Schedule of the Net Pension Liability

Fiscal Year Ended March 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2019	\$ 13,333,864	\$ 8,301,374	\$ 5,032,490	62.3%	\$ 2,893,241	173.9%
2018	13,698,851	8,725,589	4,973,262	63.7%	2,334,109	213.1%
2017	13,333,864	8,264,805	5,069,059	62.0%	2,444,252	207.4%
2016	13,228,386	7,952,760	5,275,626	60.1%	2,601,560	202.8%

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

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

CITY OF CHARLEVOIX, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending March 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	\$ 492,278	\$ 612,278	\$ (120,000)	\$ 2,787,982	21.96%
2018	347,625	467,625	(120,000)	2,408,496	19.42%
2017	318,731	318,731	-	2,412,999	13.21%
2016	290,280	290,280	-	2,552,035	11.37%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	20 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female Blend.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF CHARLEVOIX, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2019

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Assets				
Cash and cash equivalents	\$ 161,932	\$ -	\$ 344,529	\$ 28,824
Cash at fiscal agent	-	-	-	-
Investments	-	-	-	-
Accounts receivable	-	-	102	11
Taxes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governmental units	103,096	18,553	-	-
Total assets	\$ 265,028	\$ 18,553	\$ 344,631	\$ 28,835
Liabilities				
Accounts payable	\$ 4,200	\$ 6,777	\$ -	\$ -
Accrued liabilities	2,058	1,756	-	-
Unearned revenue	-	-	-	-
Total liabilities	6,258	8,533	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	258,770	10,020	-	-
Assigned	-	-	344,631	28,835
Total fund balances	258,770	10,020	344,631	28,835
Total liabilities and fund balances	\$ 265,028	\$ 18,553	\$ 344,631	\$ 28,835

Capital Projects Funds			Debt Service Fund	Permanent Fund	
Street Improvement	Infrastructure Improvement	Mt. McSauba Improvements	Debt Service Infrastructure	Cemetery Care	Total
\$ 121,862	\$ 508,256	\$ 25,839	\$ 8,744	\$ 156,892	\$ 1,356,878
-	-	-	60,700	-	60,700
-	-	-	-	276,200	276,200
48	201	631	3	62	1,058
11,631	10,077	-	-	-	21,708
-	-	-	-	2,881	2,881
-	-	-	-	-	121,649
<u>\$ 133,541</u>	<u>\$ 518,534</u>	<u>\$ 26,470</u>	<u>\$ 69,447</u>	<u>\$ 436,035</u>	<u>\$ 1,841,074</u>
\$ 968	\$ 6,963	\$ -	\$ 21	\$ -	\$ 18,929
-	2,090	-	-	-	5,904
-	-	617	-	-	617
<u>968</u>	<u>9,053</u>	<u>617</u>	<u>21</u>	<u>-</u>	<u>25,450</u>
-	-	-	-	436,035	436,035
132,573	509,481	-	-	-	910,844
-	-	25,853	69,426	-	468,745
<u>132,573</u>	<u>509,481</u>	<u>25,853</u>	<u>69,426</u>	<u>436,035</u>	<u>1,815,624</u>
<u>\$ 133,541</u>	<u>\$ 518,534</u>	<u>\$ 26,470</u>	<u>\$ 69,447</u>	<u>\$ 436,035</u>	<u>\$ 1,841,074</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Governmental Funds
For the Year Ended March 31, 2019

	Special Revenue Funds		Capital Projects Funds	
	Major Streets	Local Streets	Fire Truck and Ambulance	Industrial Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
State revenue	383,484	155,834	-	-
Charges for services	-	-	-	-
Interest	431	29	579	78
Rents and royalties	-	-	-	-
Other revenue	-	-	-	-
Total revenues	383,915	155,863	579	78
Expenditures				
Current:				
General government	-	-	-	6,501
Public works	337,837	168,077	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	337,837	168,077	-	6,501
Revenues over (under) expenditures	46,078	(12,214)	579	(6,423)
Other financing sources (uses)				
Transfers in	-	8,991	86,700	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	8,991	86,700	-
Net change in fund balances	46,078	(3,223)	87,279	(6,423)
Fund balances, beginning of year	212,692	13,243	257,352	35,258
Fund balances, end of year	\$ 258,770	\$ 10,020	\$ 344,631	\$ 28,835

Capital Projects Funds			Debt Service Fund	Permanent Fund	
Street Improvement	Infrastructure Improvement	Mt. McSauba Improvements	Debt Service Infrastructure	Cemetery Care	Total
\$ 233,206	\$ 465,413	\$ -	\$ -	\$ -	\$ 698,619
-	-	-	-	-	539,318
-	-	-	-	4,425	4,425
133	989	77	132	5,191	7,639
-	-	7,395	-	-	7,395
-	263,081	-	-	-	263,081
<u>233,339</u>	<u>729,483</u>	<u>7,472</u>	<u>132</u>	<u>9,616</u>	<u>1,520,477</u>
-	-	-	-	-	6,501
-	-	-	-	-	505,914
980	-	-	-	-	980
-	-	-	195,000	-	195,000
-	-	-	129,471	-	129,471
<u>980</u>	<u>-</u>	<u>-</u>	<u>324,471</u>	<u>-</u>	<u>837,866</u>
<u>232,359</u>	<u>729,483</u>	<u>7,472</u>	<u>(324,339)</u>	<u>9,616</u>	<u>682,611</u>
-	-	-	324,200	-	419,891
<u>(200,000)</u>	<u>(452,025)</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>(662,025)</u>
<u>(200,000)</u>	<u>(452,025)</u>	<u>(10,000)</u>	<u>324,200</u>	<u>-</u>	<u>(242,134)</u>
32,359	277,458	(2,528)	(139)	9,616	440,477
100,214	232,023	28,381	69,565	426,419	1,375,147
<u>\$ 132,573</u>	<u>\$ 509,481</u>	<u>\$ 25,853</u>	<u>\$ 69,426</u>	<u>\$ 436,035</u>	<u>\$ 1,815,624</u>

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

March 31, 2019

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Assets				
Current assets:				
Cash and cash equivalents	\$ 456,260	\$ 520,984	\$ 1,182,867	\$ 2,160,111
Investments	100,000	100,000	400,000	600,000
Accounts receivable	2,360	257	-	2,617
Interest receivable	2,761	1,072	9,182	13,015
Prepays	50,612	390	-	51,002
Total current assets	<u>611,993</u>	<u>622,703</u>	<u>1,592,049</u>	<u>2,826,745</u>
Noncurrent assets:				
Capital assets, not being depreciated	-	20,653	554,395	575,048
Capital assets being depreciated, net	-	1,445,297	40,289	1,485,586
Total noncurrent assets	<u>-</u>	<u>1,465,950</u>	<u>594,684</u>	<u>2,060,634</u>
Total assets	<u>611,993</u>	<u>2,088,653</u>	<u>2,186,733</u>	<u>4,887,379</u>
Liabilities				
Current liabilities:				
Accounts payable	11,071	110,735	102,572	224,378
Accrued liabilities	20,439	6,257	-	26,696
Unearned revenue	1,148	-	-	1,148
Current portion of compensated absences	845	-	-	845
Total current liabilities	<u>33,503</u>	<u>116,992</u>	<u>102,572</u>	<u>253,067</u>
Noncurrent liabilities:				
Compensated absences, net of current portion	<u>137,232</u>	<u>-</u>	<u>-</u>	<u>137,232</u>
Total liabilities	<u>170,735</u>	<u>116,992</u>	<u>102,572</u>	<u>390,299</u>
Net position				
Investment in capital assets	-	1,465,950	594,684	2,060,634
Unrestricted	<u>441,258</u>	<u>505,711</u>	<u>1,489,477</u>	<u>2,436,446</u>
Total net position	<u>\$ 441,258</u>	<u>\$ 1,971,661</u>	<u>\$ 2,084,161</u>	<u>\$ 4,497,080</u>

CITY OF CHARLEVOIX, MICHIGAN

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

Internal Service Funds

For the Year Ended March 31, 2019

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Operating revenues				
Charges for services	\$ 2,525,750	\$ 853,855	\$ -	\$ 3,379,605
Operating expenses				
Personnel services	2,766,064	225,881	-	2,991,945
Contractual services	3,884	70,806	698	75,388
Supplies	-	91,714	-	91,714
Utilities	-	12,046	-	12,046
Repairs and maintenance	-	104,201	-	104,201
Depreciation	-	291,041	3,231	294,272
Miscellaneous	3,900	-	-	3,900
Total operating expenses	2,773,848	795,689	3,929	3,573,466
Operating (loss) income	(248,098)	58,166	(3,929)	(193,861)
Nonoperating revenues				
Interest revenue	2,193	3,605	6,741	12,539
Gain on sale of capital assets	-	10,500	-	10,500
Other revenue	-	40,719	-	40,719
Total nonoperating revenues	2,193	54,824	6,741	63,758
Income (loss) before transfers	(245,905)	112,990	2,812	(130,103)
Transfers				
Transfers in	-	10,000	259,200	269,200
Transfers out	-	(115,860)	-	(115,860)
Total transfers	-	(105,860)	259,200	153,340
Change in net position	(245,905)	7,130	262,012	23,237
Net position, beginning of year	687,163	1,964,531	1,822,149	4,473,843
Net position, end of year	\$ 441,258	\$ 1,971,661	\$ 2,084,161	\$ 4,497,080

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2019

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Cash flows from operating activities				
Cash received from interfund services	\$ 2,525,700	\$ 853,680	\$ 81,685	\$ 3,461,065
Cash payments to employees	(2,770,250)	(226,301)	-	(2,996,551)
Cash payments to suppliers for goods and services	(8,241)	(194,852)	-	(203,093)
Net cash (used in) provided by operating activities	(252,791)	432,527	81,685	261,421
Cash flows from noncapital financing activities				
Other receipts	-	40,719	-	40,719
Transfers in	-	10,000	259,200	269,200
Transfers out	-	(115,860)	-	(115,860)
Net cash (used in) provided by noncapital financing activities	-	(65,141)	259,200	194,059
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	10,500	-	10,500
Purchase of capital assets	-	(522,943)	(453,706)	(976,649)
Net cash used in capital and related financing activities	-	(512,443)	(453,706)	(966,149)
Cash flows from investing activities				
Interest received	1,055	3,503	6,031	10,589
Net change in cash and cash equivalents	(251,736)	(141,554)	(106,790)	(500,080)
Cash and cash equivalents, beginning of year	707,996	662,538	1,289,657	2,660,191
Cash and cash equivalents, end of year	\$ 456,260	\$ 520,984	\$ 1,182,867	\$ 2,160,111

Continued...

CITY OF CHARLEVOIX, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended March 31, 2019

	Governmental Activities		Business-type Activities	Total
	Employee Fringe Benefits	Motor Vehicle	DPW Site	
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities				
Operating (loss) income	\$ (248,098)	\$ 58,166	\$ (3,929)	\$ (193,861)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities				
Depreciation expense	-	291,041	3,231	294,272
Changes in operating assets and liabilities that provided (used) cash:				
Accounts receivable	182	(175)	-	7
Prepays	(1,810)	(10)	-	(1,820)
Accounts payable	1,353	83,925	82,383	167,661
Accrued liabilities	(5,784)	(420)	-	(6,204)
Unearned revenue	(232)	-	-	(232)
Accrued compensated absences	1,598	-	-	1,598
Net cash (used in) provided by operating activities	<u>\$ (252,791)</u>	<u>\$ 432,527</u>	<u>\$ 81,685</u>	<u>\$ 261,421</u>

Concluded

CITY OF CHARLEVOIX, MICHIGAN

Balance Sheet and Statement of Net Position Downtown Development Authority Component Unit March 31, 2019

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 418,675	\$ -	\$ 418,675
Investments	50,000	-	50,000
Receivables	13,395	-	13,395
Prepays	455	-	455
Capital assets not being depreciated	-	923,071	923,071
Capital assets being depreciated, net	-	2,308,846	2,308,846
Total assets	\$ 482,525	3,231,917	3,714,442
Liabilities			
Accounts payable	\$ 34,478	1,568	36,046
Accrued liabilities	1,568	(1,568)	-
Unearned revenue	7,497	-	7,497
Total liabilities	43,543	-	43,543
Fund balance			
Restricted	438,982	(438,982)	-
Total liabilities and fund balance	\$ 482,525		
Net position			
Investment in capital assets		3,231,917	3,231,917
Restricted		438,982	438,982
Total net position		\$ 3,670,899	\$ 3,670,899

CITY OF CHARLEVOIX, MICHIGAN

**Statement of Revenues, Expenditures and Change in Fund Balance
and Statement of Activities**
Downtown Development Authority Component Unit
For the Year Ended March 31, 2019

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 456,432	\$ -	\$ 456,432
Rents	79,307	-	79,307
Miscellaneous	38,890	-	38,890
Total revenues	574,629	-	574,629
Expenditures / expenses			
Current:			
Other functions	660,451	148,568	809,019
Change in fund balance / net position	(85,822)	(148,568)	(234,390)
Fund balance / net position, beginning of year	524,804	3,380,485	3,905,289
Fund balance / net position, end of year	\$ 438,982	\$ 3,231,917	\$ 3,670,899

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

September 30, 2019

Members of City Council
City of Charlevoix
Charlevoix, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix, Michigan* (the "City"), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2019.

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 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

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

City of Charlevoix's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Lehmann Loborn LLC". The signature is written in black ink and is positioned in the lower right quadrant of the page.

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2019

2019-001 - Material Audit Adjustments (Repeated from Prior Year)

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

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

Condition. During our audit, we identified and proposed several material adjustments related to inventory, capital assets, pension, accrued liabilities and the allowance for uncollectible receivables (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 and audit.

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

CITY OF CHARLEVOIX, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2019

2019-002 - Preparation of Financial Statements in Accordance with GAAP (Repeated from Prior Year)

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

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

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

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

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

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

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

