

**CITY OF CHARLEVOIX**

**FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
March 31, 2007**

# CITY OF CHARLEVOIX

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# CITY OF CHARLEVOIX

## List of Elected and Appointed Officials For the Fiscal Year Ended March 31, 2007

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### Elected Officials

Mayor	Norman Carlson
Mayor Pro Tem	Robert Timms
Council Member	Gene Beer
Council Member	Sherm Chamberlain
Council Member	Lyle Gennett
Council Member	Shirley Gibson
Council Member	Greg Stevens
Clerk	Carol Ochs

### Appointed Officials

Acting Manager	Richard Brandi
Attorney	James Young
Police Chief	Gerard Doan
Fire & Ambulance	Paul Ivan
Electric & Water Superintendent	Donald Swem
Treasurer	Richard Brandi
Street Superintendent	Pat Elliott
Wastewater/Water Superintendent	James Caldwell
Harbormaster	Hal Evans
Planning Director	Gerry Harsch
Zoning Administrator	Dianne Manore
Recreation Director	Dwight Boss
Director of Golf	Tom Heid



## INDEPENDENT AUDITORS' REPORT

October 8, 2007

The Honorable Mayor and  
Members of the City Council  
City of Charlevoix  
Charlevoix County, Michigan

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* (the "City"), as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 and schedules listed in the table of contents 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 and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## Management's Discussion and Analysis

As management of the **City of Charlevoix** (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, 2007.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$52,543,692 (*net assets*). Of this amount, \$11,985,388 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$2,878,620.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,491,226, an increase of \$213,043 in comparison with the prior year. Approximately 49 percent of this total amount or \$736,338 is *available for spending* at the City's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$405,124 or 13 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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – 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.

The government-wide financial statements can be found on pages 14-16 of this report.

**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*.

The City maintains 13 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Airport, and City Hall Improvements funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-20 and 27-32 of this report.



**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, and marina 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 motor pool and employee fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The City also uses an internal service fund to account for DPW site maintenance. Services provided by this fund predominantly benefit business-type functions 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, sewage disposal, water operations and Marina fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 21-26 of this report.

**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.

The basic fiduciary fund financial statement can be found on page 33 of this report.

**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. The notes to the financial statements can be found on pages 34-55 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 56-61 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlevoix, assets exceeded liabilities by \$52,543,692 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (76 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 assets (0.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (22.4 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

**City of Charlevoix - Primary Government  
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>						
Cash and other assets	\$ 2,256,553	\$ 1,861,054	\$11,502,803	\$ 5,508,254	\$13,759,356	\$7,369,308
Capital assets not being depreciated	17,004,734	16,953,529	609,468	609,468	17,614,202	17,562,997
Capital assets, net of accumulated depreciation	<u>12,303,213</u>	<u>11,949,669</u>	<u>16,026,154</u>	<u>13,927,079</u>	<u>28,329,367</u>	<u>25,876,748</u>
<b>Total assets</b>	<b><u>31,564,500</u></b>	<b><u>30,764,252</u></b>	<b><u>28,138,425</u></b>	<b><u>20,044,801</u></b>	<b><u>59,702,925</u></b>	<b><u>50,809,053</u></b>
<b>Liabilities</b>						
Current and other liabilities	369,087	333,715	884,281	396,009	1,253,368	729,724
Long-term debt, net of current portion	<u>405,865</u>	<u>414,257</u>	<u>5,500,000</u>	<u>-</u>	<u>5,905,865</u>	<u>414,257</u>
<b>Total liabilities</b>	<b><u>774,952</u></b>	<b><u>747,972</u></b>	<b><u>6,384,281</u></b>	<b><u>396,009</u></b>	<b><u>7,159,233</u></b>	<b><u>1,143,981</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	29,099,437	28,675,486	11,135,622	14,536,547	40,235,059	43,212,033
Restricted	323,245	353,367	-	-	323,245	353,367
Unrestricted	<u>1,366,866</u>	<u>987,427</u>	<u>10,618,522</u>	<u>5,112,245</u>	<u>11,985,388</u>	<u>6,099,672</u>
<b>Total net assets</b>	<b><u>\$30,789,548</u></b>	<b><u>\$30,016,280</u></b>	<b><u>\$21,754,144</u></b>	<b><u>\$19,648,792</u></b>	<b><u>\$52,543,692</u></b>	<b><u>\$49,665,072</u></b>

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

The City's net assets increased by \$2,878,620 during the current fiscal year.

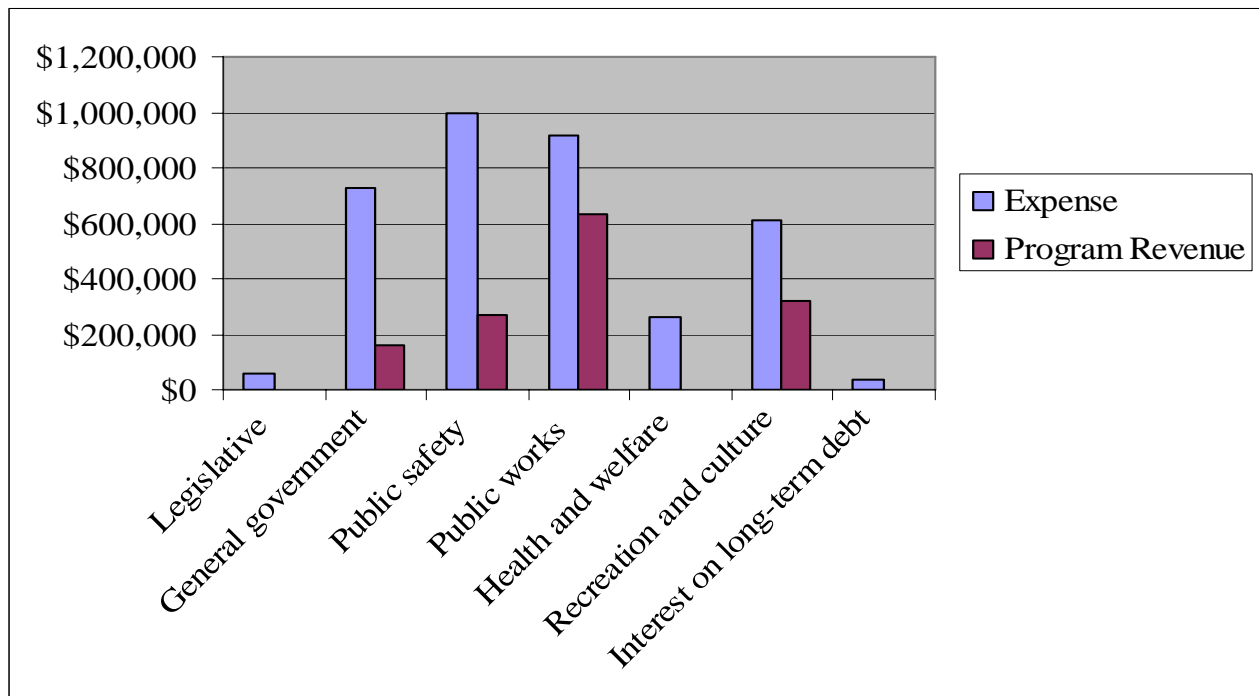
**City of Charlevoix - Primary Government  
Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 854,467	\$ 896,553	\$ 7,278,295	\$ 7,442,399	\$ 8,132,762	\$ 8,338,952
Operating grants and contributions	526,275	1,864,178	38,853	4,073	565,128	1,868,251
Capital grants and Contributions	-	-	1,576,613	-	1,576,613	-
General revenues						
Property taxes	2,468,750	2,303,118	-	-	2,468,750	2,303,118
Grants and contributions not restricted to specific programs	310,792	312,453	-	-	310,792	312,453
Unrestricted investment earnings	199,506	59,097	359,119	159,508	558,625	218,605
Gain on sale of capital assets	12,154	78,471	2,500	-	14,654	78,471
<b>Total revenues</b>	<b><u>4,371,944</u></b>	<b><u>5,513,870</u></b>	<b><u>9,255,380</u></b>	<b><u>7,605,980</u></b>	<b><u>13,627,324</u></b>	<b><u>13,119,850</u></b>
<b>Expenses</b>						
Legislative	58,518	49,919	-	-	58,518	49,919
General government	724,126	866,213	-	-	724,126	866,213
Public safety	999,129	1,048,875	-	-	999,129	1,048,875
Public works	915,506	824,180	-	-	915,506	824,180
Health and welfare	261,402	196,502	-	-	261,402	196,502
Recreation and culture	608,572	910,727	-	-	608,572	910,727
Interest on long-term debt	37,593	13,591	-	-	37,593	13,591
Electric	-	-	4,851,569	5,168,030	4,851,569	5,168,030
Sewage disposal	-	-	1,018,245	977,476	1,018,245	977,476
Water	-	-	909,694	819,957	909,694	819,957
Marina	-	-	364,350	148,651	364,350	148,651
<b>Total expenses</b>	<b><u>3,604,846</u></b>	<b><u>3,910,007</u></b>	<b><u>7,143,858</u></b>	<b><u>7,114,114</u></b>	<b><u>10,748,704</u></b>	<b><u>11,024,121</u></b>
Increase in net assets before transfers	767,098	1,603,863	2,111,522	491,866	2,878,620	2,095,729
Transfers	6,170	161,545	(6,170)	(161,545)	-	-
<b>Change in net assets</b>	<b>773,268</b>	<b>1,765,408</b>	<b>2,105,352</b>	<b>330,321</b>	<b>2,878,620</b>	<b>2,095,729</b>
Net assets – beginning of year	30,016,280	27,523,879	19,648,792	19,318,471	49,665,072	46,842,350
Prior period adjustment	-	726,993	-	-	-	726,993
<b>Net assets – end of year</b>	<b><u>\$30,789,548</u></b>	<b><u>\$30,016,280</u></b>	<b><u>\$21,754,144</u></b>	<b><u>\$19,648,792</u></b>	<b><u>\$52,543,692</u></b>	<b><u>\$49,665,072</u></b>

**Governmental activities.** Governmental activities increased the City’s net assets by \$773,268. Key elements of this increase are as follows:

- Property tax revenue increased by \$165,632 (8.8%), a slight increase in the Refuse millage PA 213 (.1 mill) during the year. This increase is the result of increased taxable value in the City.
- Operating grants and contributions decreased approximately \$1.3 million resulting from the completion of the City Hall in the prior year.
- Federal and State of Michigan grants provided an additional approximately \$226,000 for improvements at the airport.
- The City Hall Improvements Capital Projects Fund received transfers of \$60,000 from the Infrastructure Improvements Capital Projects fund, \$47,900 from the Electric, Water & Sewer Utility proprietary funds and \$126,000 from the DPW fund. (No further advances were required.)

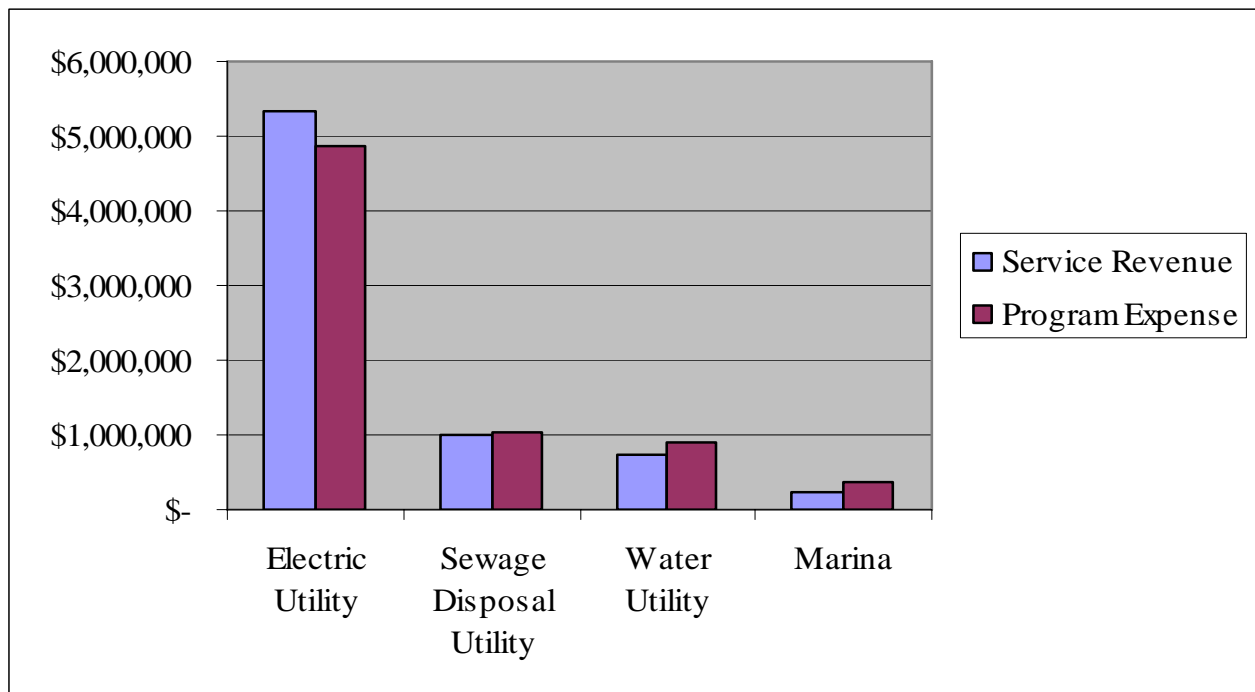
**Expenses and Program Revenues – Governmental Activities**



**Business-type activities.** Business-type activities increased the City's net assets by \$2,105,352. Key elements of this change are as follows:

- Interest rates increased and unrestricted investment earnings increased by \$199,611 for the year due to rising interest rates.
- Transfers out for 2006-07 were \$155,374 less than the prior year.
- The addition to the marina resulting in capital grants and contributions of \$1,576,613 in 2006-07.

**Expenses and Program Revenues - Business-type Activities**



**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,491,226, an increase of \$213,043 in comparison with the prior year. A significant portion of the fund balances, \$1,167,981, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for Perpetual Care.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$589,624; a portion of this amount (\$184,500) has been designated for use in the subsequent year's budget. As a measure of the General Fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents 13 percent of total General Fund expenditures and transfers out.

The fund balance of the City's General Fund decreased by \$5,762 during the current fiscal year, compared to a budgeted decrease of \$209,356. Many factors contributed to this change during the year, but the main reasons for the decrease was that estimates made prior to year end in the budget amendment were made earlier than usual and without the usual review by a City Manager. 1) We over estimated "Other Revenues" by \$17,917 in the budget amendment, 2) we spent less than expected in general government, Police, Fire and at the golf course. Many of these reductions in spending were due to the effort to pull resources together in construction and workload required by the marina construction project.

The Major Streets Fund had a total fund balance of \$48,697. The Major Streets Fund's fund balance decreased by \$44,817, compared to a budgeted decrease of \$9,991, due in most part to more spending on Major Streets for snow removal than estimated.

The Local Streets Fund had a total fund balance of \$37,043. The Local Streets Fund's fund balance decreased by \$56,994, compared to a budgeted decrease of \$17,400, due in most part to less operating transfers in the Local Street fund than estimated.

The Airport Fund had a total fund balance of \$24,099. The Airport Fund's fund balance decreased by \$85,490, compared to a budgeted increase of \$859,045, due in most part to lower Federal revenues and expenditures for grant projects during the year than expected.

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

Unrestricted net assets of the Electric Utility, Sewage Disposal Utility, Water Utility and Marina Funds at the end of the year amounted to \$7,662,660 and the investment in capital assets net of related debt was \$13,670,181. The Electric Utility Fund had an increase in net assets for the year of \$509,021, the Sewage Disposal Utility Fund a decrease of \$33,597, the Water Utility Fund a decrease of \$167,115, whereas the Marina Fund had an increase of \$1,601,322. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

During the year, General Fund revenues and expenditures were lower than budgetary estimates. There was a decrease in fund balance of \$5,762 compared to a budgeted decrease of \$209,356.

## 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, 2007, amounted to \$45,943,569 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings and systems, equipment, vehicles and infrastructures including park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 5.8 percent.

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

- Construction of a new sewer line on US-31 North from Martin Road to Ance Road.
- Marina and East Park improvements (design and partial construction).
- Completion of City Hall improvements.
- Purchase of new vehicles, machinery and equipment by the Airport and the Motor Pool funds.
- Utility system improvements and equipment purchases.

### City of Charlevoix - Primary Government Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$16,998,429	\$16,953,529	\$ 609,468	\$ 609,468	\$17,607,897	\$17,562,997
Construction-in-progress	6,305	-	-	-	6,305	-
Land improvements	3,679,951	3,490,244	3,303,924	478,694	6,983,875	3,968,938
Infrastructure	538,994	538,353	-	-	538,994	538,353
Buildings and systems	6,496,219	6,526,988	12,392,872	13,139,418	18,889,091	19,666,406
Equipment	1,020,742	748,504	329,358	308,967	1,350,100	1,057,471
Vehicles	<u>567,307</u>	<u>645,580</u>	<u>-</u>	<u>-</u>	<u>567,307</u>	<u>645,580</u>
<b>Total</b>	<b><u>\$29,307,947</u></b>	<b><u>\$28,903,198</u></b>	<b><u>\$16,635,622</u></b>	<b><u>\$14,536,547</u></b>	<b><u>\$45,943,569</u></b>	<b><u>\$43,439,745</u></b>

Additional information on the City's capital assets can be found in Note III C on pages 43-46 of this report.

**Long-term debt.** At the end of the current fiscal year, the City (primary government) had total installment purchase agreements and loans outstanding of \$208,510. This amount comprises debt backed by the full faith and credit of the City. In 2006-07, a new bond was issued for construction of a marina. This bond has a balance of \$5,500,000 which is not included in the above balance. The City has also pledged its full faith and credit to the Downtown Development Authority Component Unit bonded and installment purchase debt agreements of \$1,820,000 and \$571,737, respectively.

**City of Charlevoix  
Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Installment purchase agreement	125,572	-	571,737
MDOT loan	82,938	-	-
Marina limited tax general obligation bonds	-	5,500,000	-
General obligation refunding bond	-	-	1,820,000
<b>Total</b>	<b><u>\$ 208,510</u></b>	<b><u>\$ 5,500,000</u></b>	<b><u>\$ 2,391,737</u></b>

The City's and Component Unit's total debt increased by \$5,139,007.

The City has an "AAA" rating from Moody's for the General Obligation Bond issue for the DDA.

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 \$22,445,929, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III F on pages 48-50 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- The unemployment rate for the Northwest Michigan region is currently 7.2%, an increase from 5.7% a year ago. This compares to the state's current average unemployment rate of 7.4 % and the national average rate of 4.6%.
- The Michigan economy has significant problems and the State has a reduced credit rating. There have been reductions in revenues from sales tax and it is expected to continue for at least the next year.
- The tax collection rate for the year remained at 97% of billed taxes. This rate has remained virtually unchanged for the last 5 years. The County tax revolving fund reimburses the City for delinquent real property taxes in May each year following the March settlement.



- An increase of 6% in health care costs in the 2007-08 budget were factored in to the Employee Fringe Benefit (EFB) rate applied to all funds to maintain a break-even in the EFB. The actual increase effective August 1, 2007 is 12.3% from MERS Premier Health. The City's share will increase by approximately 6.6% due to an increase in caps and differences in labor agreements. Savings from the MERS program was \$60,000 for the first year and is still less costly than our Blue Cross plan two years ago.
- A revenue increase for State Revenue Sharing or Act 51 monies is not factored into the budget. An additional millage of .8 mills was levied to offset the cost of refuse pickup, leaf and brush collection and composting operations in attempt to offset some of the inflationary increases in costs. An increase in operating millage to 9.05 mills from 8.50 mills was adopted in the 2006-07 budget to enable the same level of service to taxpayers be provided by the General Fund. Correspondingly, the infrastructure millage was reduced to 2.2337 mills as required by the Headlee Rollback.
- Sewer rates increased 5.5%, in line with a cost of service study to offset projected losses in the business type fund.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$589,624. The City has appropriated \$184,500 of this amount for spending in the 2007-08 fiscal year budgets.

### **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 [rbrandi@cityofcharlevoix.org](mailto:rbrandi@cityofcharlevoix.org) or by visiting our website at [www.cityofcharlevoix.org](http://www.cityofcharlevoix.org) for additional supplemental budgetary information.

**CITY OF CHARLEVOIX**  
**STATEMENT OF NET ASSETS**

**MARCH 31, 2007**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,090,747	\$ 7,235,552	\$ 8,326,299	\$ 197,127
Cash with fiscal agent	-	-	-	254,315
Investments	1,415,927	2,403,252	3,819,179	416,702
Receivables	303,115	922,458	1,225,573	8,596
Internal balances	(553,236)	553,236	-	-
Other assets	-	388,305	388,305	31,513
Capital assets not being depreciated	17,004,734	609,468	17,614,202	923,071
Capital assets, net of depreciaton	12,303,213	16,026,154	28,329,367	4,177,519
<b>Total assets</b>	<b>31,564,500</b>	<b>28,138,425</b>	<b>59,702,925</b>	<b>6,008,843</b>
<b>Liabilities</b>				
Accounts payable	220,962	828,396	1,049,358	17,885
Accrued liabilities	123,115	55,885	179,000	16,293
Noncurrent liabilities				
Long term debt due within one year	25,010	-	25,010	354,347
Long term debt due in more than one year	405,865	5,500,000	5,905,865	2,037,390
<b>Total liabilities</b>	<b>774,952</b>	<b>6,384,281</b>	<b>7,159,233</b>	<b>2,425,915</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	29,099,437	11,135,622	40,235,059	2,708,853
Restricted for				
Nonexpendable perpetual care	323,245	-	323,245	-
Unrestricted	1,366,866	10,618,522	11,985,388	874,075
<b>Total net assets</b>	<b>\$ 30,789,548</b>	<b>\$ 21,754,144</b>	<b>\$ 52,543,692</b>	<b>\$ 3,582,928</b>

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

**CITY OF CHARLEVOIX**  
**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
Legislative	\$ 58,518	\$ -	\$ -	\$ -	\$ (58,518)
General government	724,126	157,564	-	-	(566,562)
Public safety	999,129	263,692	-	8,152	(727,285)
Public works	915,506	115,865	-	518,110	(281,531)
Health and welfare	261,402	-	-	-	(261,402)
Recreation and culture	608,572	317,346	-	13	(291,213)
Interest on long-term debt	37,593	-	-	-	(37,593)
Total governmental activities	<u>3,604,846</u>	<u>854,467</u>	<u>-</u>	<u>526,275</u>	<u>(2,224,104)</u>
Business-type activities					
Electric	4,851,569	5,336,335	-	-	484,766
Sewage disposal	1,018,245	959,535	-	38,853	(19,857)
Water	909,694	749,497	-	-	(160,197)
Marina	364,350	232,928	1,576,613	-	1,445,191
Total business-type activities	<u>7,143,858</u>	<u>7,278,295</u>	<u>1,576,613</u>	<u>38,853</u>	<u>1,749,903</u>
<b>Total primary government</b>	<b><u>\$ 10,748,704</u></b>	<b><u>\$ 8,132,762</u></b>	<b><u>\$ 1,576,613</u></b>	<b><u>\$ 565,128</u></b>	<b><u>\$ (474,201)</u></b>
<b>Component unit</b>					
Downtown Development Authority	<u>\$ 675,117</u>	<u>\$ 18,268</u>	<u>\$ -</u>	<u>\$ 22,320</u>	<u>\$ (634,529)</u>

Continued...

**CITY OF CHARLEVOIX**  
**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,224,104)	\$ 1,749,903	\$ (474,201)	\$ (634,529)
General revenues				
Property taxes	2,468,750	-	2,468,750	722,640
Grants and contributions not restricted to specific programs	310,792	-	310,792	-
Unrestricted investment earnings	199,506	359,119	558,625	43,982
Gain on sale of capital assets	12,154	2,500	14,654	-
Transfers - internal activities	6,170	(6,170)	-	-
Total general revenues and transfers	<u>2,997,372</u>	<u>355,449</u>	<u>3,352,821</u>	<u>766,622</u>
<b>Changes in net assets</b>	<b>773,268</b>	<b>2,105,352</b>	<b>2,878,620</b>	<b>132,093</b>
Net assets, beginning of year	<u>30,016,280</u>	<u>19,648,792</u>	<u>49,665,072</u>	<u>3,450,835</u>
<b>Net assets, end of year</b>	<b><u>\$ 30,789,548</u></b>	<b><u>\$ 21,754,144</u></b>	<b><u>\$ 52,543,692</u></b>	<b><u>\$ 3,582,928</u></b>

Concluded

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

**CITY OF CHARLEVOIX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**MARCH 31, 2007**

	<b>General</b>	<b>Major Streets</b>	<b>Local Streets</b>	<b>Airport</b>	<b>City Hall Improvements</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 102,826	\$ 349	\$ -	\$ 26,859	\$ -
Designated cash and cash equivalents -					
Skate park	4,879	-	-	-	-
Investments	460,927	4,000	26,000	-	-
Accounts receivable	41,184	-	-	21,476	-
Taxes receivable	55,753	-	-	-	-
Interest receivable	7,625	101	654	106	383
Due from other funds	-	-	-	-	14,618
Due from other governments	55,973	49,109	12,144	33,783	-
<b>Total assets</b>	<b>729,167</b>	<b>53,559</b>	<b>38,798</b>	<b>82,224</b>	<b>15,001</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	101,845	-	-	58,125	41,722
Accrued expenses	37,698	4,862	1,755	-	-
Due to other funds	-	-	-	-	-
Advance from other funds	-	-	-	-	487,762
<b>Total liabilities</b>	<b>139,543</b>	<b>4,862</b>	<b>1,755</b>	<b>58,125</b>	<b>529,484</b>
<b>Fund balances (deficits)</b>					
Reserved					
Perpetual care	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	184,500	-	37,043	-	-
Undesignated (deficit)	405,124	48,697	-	24,099	(514,483)
Undesignated - reported in nonmajor Capital Projects Funds	-	-	-	-	-
<b>Total fund balances (deficits)</b>	<b>589,624</b>	<b>48,697</b>	<b>37,043</b>	<b>24,099</b>	<b>(514,483)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 729,167</b>	<b>\$ 53,559</b>	<b>\$ 38,798</b>	<b>\$ 82,224</b>	<b>\$ 15,001</b>

<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 534,837	\$ 664,871
-	4,879
770,000	1,260,927
391	63,051
12,586	68,339
2,533	11,402
-	14,618
-	151,009
<b><u>1,320,347</u></b>	<b><u>2,239,096</u></b>
3,446	205,138
-	44,315
10,655	10,655
-	487,762
<b><u>14,101</u></b>	<b><u>747,870</u></b>
323,245	323,245
210,100	431,643
-	(36,563)
772,901	772,901
<b><u>1,306,246</u></b>	<b><u>1,491,226</u></b>
<b><u>\$ 1,320,347</u></b>	<b><u>\$ 2,239,096</u></b>

Continued...

**CITY OF CHARLEVOIX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**MARCH 31, 2007**

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**Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets**

**Fund balances - total governmental funds** **\$ 1,491,226**

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add - capital assets	34,372,791
Deduct - accumulated depreciation	(5,646,910)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service funds	973,496
Deduct - portion of internal service funds net operating income attributed to business-type funds	(69,437)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Deduct - installment contracts and loans	(208,510)
Deduct - compensated absences - sick	(71,997)
Deduct - accrued interest on bonds payable	(51,111)

**Net assets of governmental activities** **\$ 30,789,548**

Concluded

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Airport</u>	<u>City Hall Improvements</u>
<b>Revenues</b>					
Taxes	\$ 2,011,822	\$ -	\$ -	\$ -	\$ -
Federal revenue	-	-	-	220,058	-
State revenue	294,560	224,260	67,827	5,965	-
Licenses and permits	4,660	-	-	-	-
Charges for services	591,489	-	-	77,115	-
Fines and forfeits	22,528	-	-	-	-
Interest	31,397	624	1,382	1,561	1,130
Rents and royalties	97,408	-	-	38,750	-
Other revenue	7,727	-	-	-	-
<b>Total revenues</b>	<b>3,061,591</b>	<b>224,884</b>	<b>69,209</b>	<b>343,449</b>	<b>1,130</b>
<b>Expenditures</b>					
Current					
Legislative	58,603	-	-	-	-
General government	518,334	-	-	-	78,458
Public safety	1,027,710	-	-	-	-
Public works	205,590	316,114	164,760	398,508	-
Health and welfare	264,886	-	-	-	-
Recreation and culture	869,742	-	-	-	-
Other expenditures	49,488	-	-	-	-
Debt service					
Principal	-	-	-	19,038	-
Interest	-	-	-	11,393	26,200
<b>Total expenditures</b>	<b>2,994,353</b>	<b>316,114</b>	<b>164,760</b>	<b>428,939</b>	<b>104,658</b>
<b>Revenues over (under) expenditures</b>	<b>67,238</b>	<b>(91,230)</b>	<b>(95,551)</b>	<b>(85,490)</b>	<b>(103,528)</b>
<b>Other financing sources (uses)</b>					
Transfers in	12,000	46,413	38,557	-	87,900
Transfers out	(85,000)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(73,000)</b>	<b>46,413</b>	<b>38,557</b>	<b>-</b>	<b>87,900</b>
<b>Net change in fund balances</b>	<b>(5,762)</b>	<b>(44,817)</b>	<b>(56,994)</b>	<b>(85,490)</b>	<b>(15,628)</b>
Fund balances (deficits), beginning of year	595,386	93,514	94,037	109,589	(498,855)
<b>Fund balances (deficits), end of year</b>	<b>\$ 589,624</b>	<b>\$ 48,697</b>	<b>\$ 37,043</b>	<b>\$ 24,099</b>	<b>\$ (514,483)</b>



	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	456,928	\$ 2,468,750
		220,058
	-	592,612
	-	4,660
	8,525	677,129
	-	22,528
	147,318	183,412
	13,862	150,020
	501	8,228
	<b>627,134</b>	<b>4,327,397</b>
	-	58,603
	133,400	730,192
	-	1,027,710
	-	1,084,972
	-	264,886
	-	869,742
	-	49,488
	-	19,038
	-	37,593
	<b>133,400</b>	<b>4,142,224</b>
	<b>493,734</b>	<b>185,173</b>
	-	184,870
	(72,000)	(157,000)
	<b>(72,000)</b>	<b>27,870</b>
	421,734	213,043
	884,512	1,278,183
<b>\$</b>	<b>1,306,246</b>	<b>\$ 1,491,226</b>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

**Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities**

**Net change in fund balances - total governmental funds** **\$ 213,043**

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

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

Add - capital outlay	952,356
Deduct - depreciation expense	(547,607)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	19,202
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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.

Add - interest revenue from governmental internal service funds	16,094
Add - other revenue from governmental internal service funds	18,386
Add - gain on sale of capital asset	12,154
Add - net operating income of internal service funds charged to governmental activities	164,530
Deduct - internal activities (transfers) accounted for in internal service funds	(21,700)

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.

Add - increase in compensated absences - sick	1,801
Add - increase in compensated absences - sick	5,755
Deduct - increase in accrued interest payable on bonds	(60,746)

**Change in net assets of governmental activities** **\$ 773,268**

Concluded

**CITY OF CHARLEVOIX**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

**MARCH 31, 2007**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Major Funds</b>					<b>Internal Service Fund</b>
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Marina</b>	<b>Total</b>	
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 1,760,703	\$ 425,982	\$ 207,973	\$ 4,829,185	\$ 7,223,843	\$ 432,706
Investments	1,391,372	307,641	449,239	30,000	2,178,252	155,000
Accounts receivable	656,432	111,092	67,467	-	834,991	7,944
Interest receivable	66,262	8,874	10,288	1,895	87,319	1,518
Due from other funds	-	-	-	-	-	10,655
Debt issue cost	-	-	-	46,356	46,356	-
Inventory	278,521	-	63,428	-	341,949	-
<b>Total current assets</b>	<b>4,153,290</b>	<b>853,589</b>	<b>798,395</b>	<b>4,907,436</b>	<b>10,712,710</b>	<b>607,823</b>
<b>Noncurrent assets</b>						
Restricted investments						
For replacement	75,000	75,000	75,000	-	225,000	-
Capital assets,						
net of accumulated depreciation	5,899,588	3,654,571	4,116,022	2,846,467	16,516,648	700,902
Advance to other funds	487,762	-	-	-	487,762	-
<b>Total noncurrent assets</b>	<b>6,462,350</b>	<b>3,729,571</b>	<b>4,191,022</b>	<b>2,846,467</b>	<b>17,229,410</b>	<b>700,902</b>
<b>Total assets</b>	<b>10,615,640</b>	<b>4,583,160</b>	<b>4,989,417</b>	<b>7,753,903</b>	<b>27,942,120</b>	<b>1,308,725</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable	358,916	81,957	3,059	384,462	828,394	15,824
Accrued expenses	24,469	14,390	15,250	1,776	55,885	27,531
Compensated absences	-	-	-	-	-	2,843
Due to other funds	-	-	-	-	-	14,618
<b>Total current liabilities</b>	<b>383,385</b>	<b>96,347</b>	<b>18,309</b>	<b>386,238</b>	<b>884,279</b>	<b>60,816</b>
<b>Noncurrent liabilities</b>						
Bonds payable	-	-	-	5,500,000	5,500,000	-
Compensated absences	-	-	-	-	-	147,545
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>	<b>5,500,000</b>	<b>147,545</b>
<b>Total liabilities</b>	<b>383,385</b>	<b>96,347</b>	<b>18,309</b>	<b>5,886,238</b>	<b>6,384,279</b>	<b>208,361</b>
<b>Net assets</b>						
Invested in capital assets	5,899,588	3,654,571	4,116,022	-	13,670,181	700,902
Restricted for replacement and redemption	75,000	75,000	75,000	-	225,000	-
Unrestricted	4,257,667	757,242	780,086	1,867,665	7,662,660	399,462
<b>Total net assets</b>	<b>\$ 10,232,255</b>	<b>\$ 4,486,813</b>	<b>\$ 4,971,108</b>	<b>\$ 1,867,665</b>	<b>\$ 21,557,841</b>	<b>\$ 1,100,364</b>

Continued...

**CITY OF CHARLEVOIX**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

**MARCH 31, 2007**

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**Reconciliation of net assets on the statement of net assets for proprietary funds to net assets of business-type activities on the statement of net assets**

**Net assets - total enterprise funds** **\$ 21,557,841**

Amounts reported for business-type activities in the statement of net assets are different because

An internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add - net assets of business-type activities accounted for in the internal service fund 126,866  
Add - portion of internal service funds net operating income attributed to business-type funds 69,437

**Net assets of business-type activities** **\$ 21,754,144**

Concluded

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Major Funds</b>					<b>Internal Service Fund</b>
	<b>Electric Utility</b>	<b>Sewage Disposal Utility</b>	<b>Water Utility</b>	<b>Marina</b>	<b>Total</b>	
<b>Operating revenues</b>						
Charges for services	\$ 5,313,937	\$ 940,171	\$ 743,854	\$ 232,928	\$ 7,230,890	\$ 2,140,987
<b>Operating expenses</b>						
Purchased power	3,137,930	-	-	-	3,137,930	-
Personal services	694,553	420,858	457,707	121,489	1,694,607	1,591,198
Contractual services	125,002	85,197	92,181	59,680	362,060	105,155
Insurance	4,193	21,530	8,036	3,610	37,369	-
Building rental	36,750	16,950	16,950	-	70,650	-
Equipment rental	109,624	74,983	30,473	(1,735)	213,345	-
Supplies	30,702	77,577	37,087	7,389	152,755	72,084
Utilities	16,437	126,904	65,154	18,523	227,018	11,831
Repair and maintenance	31,505	44,404	14,463	-	90,372	66,894
Depreciation	639,144	157,058	185,040	7,740	988,982	136,951
Miscellaneous	52,859	13,594	11,271	3,889	81,613	3,334
<b>Total operating expenses</b>	<b>4,878,699</b>	<b>1,039,055</b>	<b>918,362</b>	<b>220,585</b>	<b>7,056,701</b>	<b>1,987,447</b>
<b>Operating income (loss)</b>	<b>435,238</b>	<b>(98,884)</b>	<b>(174,508)</b>	<b>12,343</b>	<b>174,189</b>	<b>153,540</b>
<b>Nonoperating revenues (expenses)</b>						
Interest revenue	128,953	37,526	35,364	157,019	358,862	16,351
Gain on sale of capital assets	2,500	-	-	-	2,500	12,154
Other revenue	22,398	16,277	5,643	10	44,328	18,386
Federal revenue	-	41,940	-	-	41,940	-
State revenue	-	-	-	1,576,603	1,576,603	-
Interest expense	(368)	-	-	(144,653)	(145,021)	-
<b>Total nonoperating revenues (expenses)</b>	<b>153,483</b>	<b>95,743</b>	<b>41,007</b>	<b>1,588,979</b>	<b>1,879,212</b>	<b>46,891</b>
<b>Income (loss) before transfers</b>	<b>588,721</b>	<b>(3,141)</b>	<b>(133,501)</b>	<b>1,601,322</b>	<b>2,053,401</b>	<b>200,431</b>
<b>Transfers</b>						
Transfers in	-	1	-	-	1	137,600
Transfers out	(79,700)	(30,457)	(33,614)	-	(143,771)	(21,700)
<b>Total transfers</b>	<b>(79,700)</b>	<b>(30,456)</b>	<b>(33,614)</b>	<b>-</b>	<b>(143,770)</b>	<b>115,900</b>
<b>Change in net assets</b>	<b>509,021</b>	<b>(33,597)</b>	<b>(167,115)</b>	<b>1,601,322</b>	<b>1,909,631</b>	<b>316,331</b>
Net assets, beginning of year	9,723,234	4,520,410	5,138,223	266,343	19,648,210	784,033
<b>Net assets, end of year</b>	<b>\$ 10,232,255</b>	<b>\$ 4,486,813</b>	<b>\$ 4,971,108</b>	<b>\$ 1,867,665</b>	<b>\$ 21,557,841</b>	<b>\$ 1,100,364</b>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN NET ASSETS - PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

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**Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds to the to the  
statement of activities**

**Change in net assets - all enterprise funds** **\$ 1,909,631**

An internal service fund is used by management to charge the costs of certain DPW site capital improvements to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.

Add - interest revenue from business-type internal service fund	255
Add - net operating income of internal service funds charged to business-type funds	57,866
Add - internal activities (transfers) accounted for in business-type internal service fund	<u>137,600</u>

**Change in net assets of business-type activities** **\$ 2,105,352**

Concluded

**CITY OF CHARLEVOIX**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<u>Enterprise Funds</u>					
	<u>Major Funds</u>					
	<u>Electric Utility</u>	<u>Sewage Disposal Utility</u>	<u>Water Utility</u>	<u>Marina</u>	<u>Total</u>	<u>Internal Service Fund</u>
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 5,365,103	\$ 943,351	\$ 758,855	\$ 233,003	\$ 7,300,312	\$ -
Cash received from interfund services	-	-	-	-	-	2,133,043
Cash payments to employees	(694,511)	(415,097)	(451,549)	(120,505)	(1,681,662)	(1,571,394)
Cash payments to suppliers for goods and services	(3,448,091)	(474,225)	(306,394)	(91,356)	(4,320,066)	(267,953)
<b>Net cash provided by operating activities</b>	<b>1,222,501</b>	<b>54,029</b>	<b>912</b>	<b>21,142</b>	<b>1,298,584</b>	<b>293,696</b>
<b>Cash flows from noncapital financing activities</b>						
Miscellaneous income	22,398	16,277	5,643	10	44,328	18,386
Repayment of amounts due to other funds	(30,000)	-	-	-	(30,000)	(121,540)
Transfers in from other funds	-	1	-	-	1	137,600
Transfers out to other funds	(79,700)	(30,457)	(33,614)	-	(143,771)	(21,700)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(87,302)</b>	<b>(4,922)</b>	<b>(27,971)</b>	<b>10</b>	<b>(120,185)</b>	<b>12,746</b>
<b>Cash flows from capital and related financing activities</b>						
Proceeds from sale of capital assets	-	-	-	-	-	12,154
Bond proceeds	2,500	-	-	5,453,644	5,456,144	-
State and federal grants	-	41,940	-	1,576,603	1,618,543	-
Purchase of capital assets	(120,785)	(136,016)	(2,388)	(2,455,881)	(2,715,070)	(108,336)
Bond interest payments	(368)	-	-	(144,653)	(145,021)	-
<b>Net cash used in capital and related financing activities</b>	<b>(118,653)</b>	<b>(94,076)</b>	<b>(2,388)</b>	<b>4,429,713</b>	<b>4,214,596</b>	<b>(96,182)</b>
<b>Cash flows from investing activities</b>						
Proceeds from matured investments	1,419,500	332,297	495,346	30,000	2,277,143	155,000
Purchase of investments	(1,466,372)	(382,641)	(524,239)	(30,000)	(2,403,252)	(155,000)
Investment income	133,053	30,466	31,042	155,221	349,782	16,856
<b>Net cash provided by (used in) investing activities</b>	<b>253,419</b>	<b>(19,878)</b>	<b>2,149</b>	<b>155,221</b>	<b>390,911</b>	<b>16,856</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,269,965</b>	<b>(64,847)</b>	<b>(27,298)</b>	<b>4,606,086</b>	<b>5,783,906</b>	<b>227,116</b>
Cash and cash equivalents, beginning of year	490,738	490,829	235,271	223,099	1,439,937	205,590
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,760,703</b>	<b>\$ 425,982</b>	<b>\$ 207,973</b>	<b>\$ 4,829,185</b>	<b>\$ 7,223,843</b>	<b>\$ 432,706</b>

**Noncash capital and related financing activities**

The City capitalized \$383,976 in the marina fund for which payment had not been made (recorded in accounts payable) at year end

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Enterprise Funds					
	Major Funds					Internal Service Fund
	Electric Utility	Sewage Disposal Utility	Water Utility	Marina	Total	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 435,238	\$ (98,884)	\$ (174,508)	\$ 12,343	\$ 174,189	\$ 153,540
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	639,144	157,058	185,040	7,740	988,982	136,951
Changes in assets and liabilities						
Accounts receivable	51,166	3,180	15,001	75	69,422	(7,944)
Inventory	(13,924)	-	(24,378)	-	(38,302)	-
Accounts payable	100,548	(13,086)	(6,401)	-	81,061	(8,655)
Accrued expenses	10,329	5,761	6,158	984	23,232	14,049
Accrued compensated absences	-	-	-	-	-	5,755
<b>Net cash provided by operating activities</b>	<b><u>\$ 1,222,501</u></b>	<b><u>\$ 54,029</u></b>	<b><u>\$ 912</u></b>	<b><u>\$ 21,142</u></b>	<b><u>\$ 1,298,584</u></b>	<b><u>\$ 293,696</u></b>

Concluded

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



**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Taxes</b>				
Property taxes	\$ 1,955,800	\$ 1,955,800	\$ 1,983,051	\$ 27,251
Payments in lieu of taxes	1,800	1,800	2,975	1,175
Interest and penalties on delinquent taxes	6,400	6,400	7,262	862
Tax collection fees	23,000	23,000	18,534	(4,466)
<b>Total taxes</b>	<b>1,987,000</b>	<b>1,987,000</b>	<b>2,011,822</b>	<b>24,822</b>
<b>State revenue</b>	<b>287,900</b>	<b>295,160</b>	<b>294,560</b>	<b>(600)</b>
<b>Licenses and permits</b>	<b>6,100</b>	<b>6,100</b>	<b>4,660</b>	<b>(1,440)</b>
<b>Charges for services</b>				
Fire runs	64,700	64,700	69,115	4,415
Ambulance runs	146,100	146,100	155,656	9,556
Ambulance contracts	38,100	38,100	38,921	821
Charges for services - other	4,100	4,100	4,525	425
Cemetery	46,000	46,000	46,564	564
Golf course	165,000	165,000	155,361	(9,639)
Summer sports	12,000	12,000	6,284	(5,716)
Day camp	45,500	45,500	44,585	(915)
Winter sports	60,000	60,000	40,983	(19,017)
Basketball	6,000	6,000	3,225	(2,775)
Skate park	3,600	3,600	4,824	1,224
Parking	20,000	20,000	21,446	1,446
<b>Total charges for services</b>	<b>611,100</b>	<b>611,100</b>	<b>591,489</b>	<b>(19,611)</b>
<b>Fine and forfeits</b>	<b>28,900</b>	<b>37,642</b>	<b>22,528</b>	<b>(15,114)</b>
<b>Interest and dividends</b>	<b>16,000</b>	<b>16,000</b>	<b>31,397</b>	<b>15,397</b>
<b>Rents and royalties</b>				
Harbor building	700	700	1,100	400
City hall	84,700	84,700	71,950	(12,750)
Boat launch	24,900	24,900	24,358	(542)
<b>Total rents and royalties</b>	<b>110,300</b>	<b>110,300</b>	<b>97,408</b>	<b>(12,892)</b>
<b>Other revenues</b>	<b>19,900</b>	<b>25,644</b>	<b>7,727</b>	<b>(17,917)</b>
<b>Total revenues</b>	<b>3,067,200</b>	<b>3,088,946</b>	<b>3,061,591</b>	<b>(27,355)</b>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Legislative</b>				
City council	\$ 56,700	\$ 56,700	\$ 58,603	\$ 1,903
<b>General government</b>				
Mayor	10,500	10,500	5,779	(4,721)
City manager	63,300	63,300	85,819	22,519
Elections	16,700	16,700	15,671	(1,029)
Assessor	62,500	62,786	68,909	6,123
City attorney	96,400	96,400	76,031	(20,369)
City clerk	38,100	38,100	34,704	(3,396)
City treasurer	63,800	63,800	53,595	(10,205)
City hall and grounds	111,900	111,900	98,738	(13,162)
Cemetery	91,200	91,200	79,088	(12,112)
<b>Total general government</b>	<b>554,400</b>	<b>554,686</b>	<b>518,334</b>	<b>(36,352)</b>
<b>Public safety</b>				
Police department	677,000	677,000	640,321	(36,679)
Parking law enforcement	12,500	12,500	12,352	(148)
Fire department	367,600	367,600	319,926	(47,674)
Planning department	74,900	74,900	55,111	(19,789)
<b>Total public safety</b>	<b>1,132,000</b>	<b>1,132,000</b>	<b>1,027,710</b>	<b>(104,290)</b>
<b>Public works</b>				
Highways and streets	28,300	28,300	26,752	(1,548)
Leaf pick up	113,900	113,900	98,826	(15,074)
Waste collection	20,500	20,500	21,847	1,347
Brush pickup	18,000	29,216	58,165	28,949
<b>Total public works</b>	<b>180,700</b>	<b>191,916</b>	<b>205,590</b>	<b>13,674</b>

Continued...

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Health and welfare</b>				
Ambulance	\$ 275,000	\$ 275,000	\$ 264,886	\$ (10,114)
<b>Recreation and culture</b>				
Parks	237,600	237,600	286,722	49,122
Recreation administration	40,700	40,700	41,308	608
City beaches	57,900	57,900	47,898	(10,002)
Ball fields	37,800	37,800	22,641	(15,159)
Day camp	43,800	43,800	43,746	(54)
Ice rink	11,900	11,900	1,291	(10,609)
Mt. McSauba ski hill	136,700	136,700	125,365	(11,335)
Basketball and volleyball	7,000	7,000	2,819	(4,181)
Golf course	250,800	250,800	221,442	(29,358)
Boat launch	19,200	19,200	20,338	1,138
Skate park	16,100	16,100	39,252	23,152
Community promotion	19,600	19,600	16,920	(2,680)
<b>Total recreation and culture</b>	<b>879,100</b>	<b>879,100</b>	<b>869,742</b>	<b>(9,358)</b>
<b>Other expenditures</b>	<b>108,900</b>	<b>108,900</b>	<b>49,488</b>	<b>(59,412)</b>
<b>Total expenditures</b>	<b>3,186,800</b>	<b>3,198,302</b>	<b>2,994,353</b>	<b>(203,949)</b>
<b>Revenues over (under) expenditures</b>	<b>(119,600)</b>	<b>(109,356)</b>	<b>67,238</b>	<b>176,594</b>
<b>Other financing sources (uses)</b>				
Transfers in	10,000	10,000	12,000	2,000
Transfers out	(110,000)	(110,000)	(85,000)	(25,000)
<b>Total other financing sources (uses)</b>	<b>(100,000)</b>	<b>(100,000)</b>	<b>(73,000)</b>	<b>(23,000)</b>
<b>Net change in fund balance</b>	<b>(219,600)</b>	<b>(209,356)</b>	<b>(5,762)</b>	<b>203,594</b>
Fund balance, beginning of year	595,386	595,386	595,386	-
<b>Fund balance, end of year</b>	<b>\$ 375,786</b>	<b>\$ 386,030</b>	<b>\$ 589,624</b>	<b>\$ 203,594</b>

Concluded

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

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
MAJOR STREETS FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
State revenue	\$ 231,300	\$ 239,087	\$ 224,260	\$ (14,827)
Interest	1,600	1,600	624	(976)
<b>Total revenues</b>	<b>232,900</b>	<b>240,687</b>	<b>224,884</b>	<b>(15,803)</b>
<b>Expenditures</b>				
Public works - Highways and streets	584,800	894,378	316,114	(578,264)
<b>Revenues over (under) expenditures</b>	<b>(351,900)</b>	<b>(653,691)</b>	<b>(91,230)</b>	<b>562,461</b>
<b>Other financing sources (uses)</b>				
Transfers in	322,800	645,600	46,413	(599,187)
Transfers out	(1,900)	(1,900)	-	1,900
<b>Total other financing sources (uses)</b>	<b>320,900</b>	<b>643,700</b>	<b>46,413</b>	<b>(597,287)</b>
<b>Net change in fund balance</b>	<b>(31,000)</b>	<b>(9,991)</b>	<b>(44,817)</b>	<b>(34,826)</b>
Fund balance, beginning of year	93,514	93,514	93,514	-
<b>Fund balance, end of year</b>	<b>\$ 62,514</b>	<b>\$ 83,523</b>	<b>\$ 48,697</b>	<b>\$ (34,826)</b>

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

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
LOCAL STREETS FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenue	\$ 70,800	\$ 70,800	\$ 67,827	\$ (2,973)
Interest	1,200	1,200	1,382	182
<b>Total revenues</b>	<b>72,000</b>	<b>72,000</b>	<b>69,209</b>	<b>(2,791)</b>
<b>Expenditures</b>				
Public works - Highways and streets	154,500	168,400	164,760	(3,640)
<b>Revenues over (under) expenditures</b>	<b>(82,500)</b>	<b>(96,400)</b>	<b>(95,551)</b>	<b>849</b>
<b>Other financing sources</b>				
Transfers in	79,000	79,000	38,557	(40,443)
<b>Net change in fund balance</b>	<b>(3,500)</b>	<b>(17,400)</b>	<b>(56,994)</b>	<b>(39,594)</b>
Fund balance, beginning of year	94,037	94,037	94,037	-
<b>Fund balance, end of year</b>	<b>\$ 90,537</b>	<b>\$ 76,637</b>	<b>\$ 37,043</b>	<b>\$ (39,594)</b>

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

**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
AIRPORT FUND**

**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Federal revenue	\$ 943,300	\$ 1,793,645	\$ 220,058	\$ (1,573,587)
State revenue	-	-	5,965	5,965
Charges for services	97,600	97,600	77,115	(20,485)
Interest	600	600	1,561	961
Rents and royalties	46,300	46,300	38,750	(7,550)
<b>Total revenues</b>	<b>1,087,800</b>	<b>1,938,145</b>	<b>343,449</b>	<b>(1,594,696)</b>
<b>Expenditures</b>				
Public works	1,073,700	1,073,700	398,508	(675,192)
Debt service				
Principal	19,200	19,200	19,038	(162)
Interest	11,200	11,200	11,393	193
<b>Total expenditures</b>	<b>1,104,100</b>	<b>1,104,100</b>	<b>428,939</b>	<b>(675,161)</b>
<b>Revenues over (under) expenditures</b>	<b>(16,300)</b>	<b>834,045</b>	<b>(85,490)</b>	<b>(919,535)</b>
<b>Other financing sources</b>				
<b>Transfers in</b>	<b>25,000</b>	<b>25,000</b>	<b>-</b>	<b>(25,000)</b>
<b>Net change in fund balance</b>	<b>8,700</b>	<b>859,045</b>	<b>(85,490)</b>	<b>(944,535)</b>
Fund balance, beginning of year	109,589	109,589	109,589	-
<b>Fund balance, end of year</b>	<b>\$ 118,289</b>	<b>\$ 968,634</b>	<b>\$ 24,099</b>	<b>\$ (944,535)</b>

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

**CITY OF CHARLEVOIX**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUND**  
**CURRENT TAX COLLECTION FUND**  
**MARCH 31, 2007**

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<b>Assets</b>	
Cash and cash equivalents	<u>\$ 56,184</u>
<b>Liabilities</b>	
Undistributed receipts	<u>\$ 56,184</u>

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

**CITY OF CHARLEVOIX**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2007**

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# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The **City of Charlevoix** (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 government 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: public safety (police and fire), highways and streets, sanitation, electricity, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services.

*Discretely presented component unit.* The Charlevoix 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. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer at the City of Charlevoix, 210 State Street, Charlevoix, MI 49720.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets 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 certain legally separate *component units* for which the primary government is financially accountable.

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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.

### **C. 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, except for agency funds, which do not have a measurement focus. 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.

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

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

The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by state statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by state statute for local street and highway purposes.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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The *Airport Fund* accounts for revenue sources that are legally restricted to expenditures for the Airport.

The *City Hall Improvements Fund* is used to account for the major renovation project underway at City Hall; the project was substantially complete in December 2005.

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.

Additionally, the City reports the following fund types:

The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Permanent Fund* accounts for the perpetual care portion of the fee collected from the sale of cemetery lots. These monies are accumulating until such a time when they become adequate to be used to support cemetery operations.

The *Internal Service Funds* account for fleet and equipment management, employee fringe benefits, and construction of the DPW building provided to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Fund* accounts for assets held for other governments in an agency capacity, specifically tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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 function, 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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, sewage disposal and water enterprise funds and of the City's internal service funds are charges to customers 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.

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.

### **D. Assets, liabilities and net assets or equity**

#### ***1. Deposits and investments***

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

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

Investments are reported at fair value.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### **2. *Receivables and payables***

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

Advances between funds, as reported in the fund financial statements, are generally offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### **3. *Restricted assets***

Certain resources have been set aside to fund capital asset replacements and customer deposits payable.

### **4. *Inventory***

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

### **5. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	<u>Years</u>
Buildings	40
Land improvements	20-30
System infrastructure	50
Equipment	5-10
Vehicles	5-20
Public domain infrastructure	50

### **6. *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 government-wide and proprietary funds; otherwise, total accumulated and unused vacation time is reported as a liability in the employees fringe benefit internal service fund as a result of employee resignations or retirements.

### **7. *Long-term obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. 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 the City's 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, department, and line items. The legal level of budgetary control adopted by the governing board is the function 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

## NOTES TO THE FINANCIAL STATEMENTS

### B. Excess of expenditures over appropriations

	<u>Final</u> <u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
<b>General Fund</b>			
Legislative	\$ 56,700	\$ 58,603	\$ 1,903
Public works	191,916	205,590	13,674

### C. Deficit fund balance

The costs of the City Hall renovations have exceeded the revenues generated for the project resulting in a deficit fund balance at year end of \$514,483 in the City Hall Improvements Capital Projects Fund. Rather than issuing bonds and incurring the related costs, the Electric Utility Enterprise Fund advanced \$504,000 in fiscal 2004, \$121,000 in fiscal 2005, \$30,000 in fiscal 2006 and \$87,900 in fiscal 2007 to provide funds for construction costs. The City plans to transfer future amounts budgeted for improvements into the City Hall Improvements Capital Projects Fund until such time that the advance has been repaid and the deficit fund balance is eliminated.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

	<u>Primary</u> <u>Government</u>	<u>Component</u> <u>Unit</u>	<u>Total</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 8,326,299	\$ 451,442	\$ 8,777,741
Investments	<u>3,819,179</u>	<u>416,702</u>	<u>4,235,881</u>
<b>Total Statement of Net Assets</b>	<b><u>\$ 12,145,478</u></b>	<b><u>\$ 868,144</u></b>	
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			<u>56,184</u>
<b>Total deposits and investments</b>			<b><u>\$ 13,069,806</u></b>



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts and savings accounts and certificates of deposit)	\$ 12,815,491
Cash with fiscal agent	<u>254,315</u>
<b>Total deposits and investments</b>	<b><u>\$ 13,069,806</u></b>

### **Investment and deposit risk**

*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.

*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.

*Custodial credit risk - deposits.* 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 \$12,781,000 of the City's bank balance of \$13,486,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 or 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 12/31/97.

# CITY OF CHARLEVOIX

## 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.

### B. Receivables

Receivables in the governmental activities consist of 52 percent due from other governments, 4 percent interest receivable, 23 percent taxes receivable and 21 percent accounts receivable. Receivables in the business-type activities consist of 9 percent interest receivable, and 91 percent due from customers. Receivables in the component unit consist of 9 percent taxes receivable and 91 percent interest receivable.

### C. Capital assets

Capital assets activity for the year ended March 31, 2007 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b><u>Primary Government</u></b>				
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 16,953,529	\$ 44,900	\$ -	\$ 16,998,429
Construction-in-process	-	6,305	-	6,305
Total capital assets not being depreciated	16,953,529	51,205	-	17,004,734
Capital assets being depreciated				
Land improvements	4,938,700	320,680	-	5,259,380
Infrastructure	571,603	13,092	-	584,695
Buildings and improvements	9,271,478	141,908	-	9,413,386
Machinery and equipment	1,776,450	391,698	-	2,168,148
Engineering equipment	47,184	-	-	47,184
Furniture and equipment	202,563	7,538	-	210,101
Vehicles	1,986,275	26,235	-	2,012,510
Total capital assets being depreciated	18,794,253	901,151	-	19,695,404

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Less accumulated depreciation for				
Land improvements	\$ (1,448,456)	\$ (130,973)	\$ -	\$ (1,579,429)
Infrastructure	(33,250)	(12,451)	-	(45,701)
Buildings and improvements	(2,744,490)	(172,677)	-	(2,917,167)
Machinery and equipment	(1,071,778)	(113,984)	-	(1,185,762)
Engineering equipment	(27,707)	(5,671)	-	(33,378)
Furniture and equipment	(178,208)	(7,343)	-	(185,551)
Vehicles	(1,340,695)	(104,508)	-	(1,445,203)
 Total accumulated depreciation	 (6,844,584)	 (547,607)	 -	 (7,392,191)
 Total capital assets being depreciated, net of depreciation	 11,949,669	 353,544	 -	 12,303,213
 <b>Governmental activities capital assets, net of depreciation</b>	 <b>\$ 28,903,198</b>	 <b>\$ 404,749</b>	 <b>\$ -</b>	 <b>\$ 29,307,947</b>
 <b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 609,468	\$ -	\$ -	\$ 609,468
 Capital assets being depreciated				
Land improvements	763,230	2,857,366	-	3,620,596
Buildings and improvements	6,494,440	4,090	-	6,498,530
System improvements	20,251,862	157,333	-	20,409,195
Equipment	1,133,129	80,257	-	1,213,386
 Total capital assets being depreciated	 28,642,661	 3,099,046	 -	 31,741,707
 Less accumulated depreciation for				
Land improvements	(284,536)	(32,136)	-	(316,672)
Buildings and improvements	(3,719,044)	(176,010)	-	(3,895,054)
System improvements	(9,887,840)	(731,959)	-	(10,619,799)
Equipment	(824,162)	(59,866)	-	(884,028)
 Total accumulated depreciation	 (14,715,582)	 (999,971)	 -	 (15,715,553)

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Total capital assets being depreciated, net of depreciation	\$ 13,927,079	\$ 2,099,075	\$ -	\$ 16,026,154
<b>Business-type activities capital assets, net of depreciation</b>	<b><u>\$ 14,536,547</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 16,635,622</u></b>
<b><u>Component Unit</u></b>				
Capital assets not being depreciated – land	\$ 923,071	\$ -	\$ -	\$ 923,071
Capital assets being depreciated				
Land improvements	2,236,197	17,751	-	2,253,948
Buildings and improvements	3,921,526	10,498	-	3,932,024
Machinery and equipment	22,475	3,675	-	26,150
Engineering equipment	31,347	-	-	31,347
Furniture and equipment	<u>3,400</u>	<u>1,414</u>	<u>-</u>	<u>4,814</u>
Total capital assets being depreciated	<u>6,214,945</u>	<u>33,338</u>	<u>-</u>	<u>6,248,283</u>
Less accumulated depreciation for				
Land improvements	(707,967)	(76,022)	-	(783,989)
Buildings and improvements	(1,158,615)	(102,144)	-	(1,260,759)
Machinery and equipment	(4,844)	(510)	-	(5,354)
Engineering equipment	(15,941)	(2,604)	-	(18,545)
Furniture and equipment	<u>(1,720)</u>	<u>(397)</u>	<u>-</u>	<u>(2,117)</u>
Total accumulated depreciation	<u>(1,889,087)</u>	<u>(181,677)</u>	<u>-</u>	<u>(2,070,764)</u>
Total capital assets being depreciated, net of depreciation	<u>4,325,858</u>	<u>(148,339)</u>	<u>-</u>	<u>4,177,519</u>
<b>Component unit capital assets, net of depreciation</b>	<b><u>\$ 5,248,929</u></b>	<b><u>\$ (148,339)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,100,590</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

<b>Governmental activities</b>	
General government	\$ 80,584
Public safety	50,053
Public works, including depreciation of general infrastructure assets	201,193
Recreation and culture	89,816
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>125,961</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 547,607</u></b>
<b>Business-type activities</b>	
Electric	\$ 639,144
Sewage disposal	157,057
Water	185,040
Marina	7,740
Capital assets held by the business-type activity internal service funds are charged to the various functions based on their usage of the assets	<u>10,990</u>
<b>Total depreciation expense – business-type activities</b>	<b><u>\$ 999,971</u></b>

### D. Payables

Governmental activities, business-type activities and component unit accounts payable are composed entirely of amounts due to vendors.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### E. Interfund receivables, payables and transfers

In prior years, the Electric Utility Enterprise Fund advanced a total of \$655,000 to the City Hall Improvements Fund for the purpose of assisting in the City Hall renovation project. The advance is to be repaid over four years with interest charged at 4%. The current balance of this advance is \$487,762.

The composition of interfund balances is as follows:

<u>Due from</u>	<u>Due To</u>		<u>Total</u>
	<u>City Hall Improvements</u>	<u>Internal Service</u>	
Internal Service	\$ 14,618	\$ -	\$ 14,618
Nonmajor governmental funds	-	10,655	10,655
<b>Total</b>	<b><u>\$ 14,618</u></b>	<b><u>\$ 10,655</u></b>	<b><u>\$ 25,273</u></b>

Interfund receivables and payables are established to cover temporary cash deficits.

<u>Transfers in</u>	<u>Transfers out</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Subtotal Transfers In</u>
General Fund	\$ -	\$ 12,000	\$ 12,000
Major Streets	46,413	-	46,413
Local Streets	28,587	-	28,587
City Hall Improvements	10,000	60,000	70,000
<b>Subtotal transfers out</b>	<b><u>\$ 85,000</u></b>	<b><u>\$ 72,000</u></b>	<b><u>\$ 157,000</u></b>

<u>Transfers in</u>	<u>Transfers out</u>				<u>Subtotal Transfers In</u>
	<u>Electric Utility</u>	<u>Sewage Disposal Utility</u>	<u>Water Utility</u>	<u>Internal Service Funds</u>	
Local Street	\$ -	\$ 857	\$ 9,114	\$ -	\$ 9,971
City Hall Improvements	(2,700)	6,100	6,200	8,300	17,900
Internal Service	82,400	23,500	18,300	13,400	137,600
<b>Subtotal transfers out</b>	<b><u>\$ 79,700</u></b>	<b><u>\$ 30,457</u></b>	<b><u>\$ 33,614</u></b>	<b><u>\$ 21,700</u></b>	<b><u>\$ 165,471</u></b>

Transfers in/out totaled \$ 331,728 for the year ended March 31, 2007.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

Interfund transfers are: (1) to transfer funds from Mt. McSauba Improvement Funds to the General Fund, (2) to transfer available funds to the City Hall Improvements Capital Projects Fund to cover costs of the city hall renovation project, (3) to use accumulated Infrastructure Improvement funds on the sidewalk repair project recorded in the Local Street Fund, (4) to use accumulated Infrastructure Improvements funds on the water irrigation project at the golf course recorded in the General Fund, (5) to use accumulated Water, Sewer, Motor Pool and Infrastructure Improvements funds to cover depreciation costs of the DPW Site fund and City Hall capital improvements, (6) to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (7) transfer funds from Water and Sewer funds for street patching on local streets for utility cuts, and (8) transfer annual planned amount from General Fund to Major and Local Streets Funds.

### F. Long-term debt

**General obligation bonds.** The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued by the DDA discretely presented component unit.

**Installment purchases.** The primary government's and component unit's Public Act 99 installment purchase agreements are also general obligations of the City. The original amount of the primary government's installment purchase agreement was \$180,000 and the component unit's installment purchase agreement was \$1,500,000.

In addition, the primary government has a loan with the Michigan Aeronautics Commission of the Michigan Department of Transportation (MDOT) in accordance with Act 107, Public Acts of 1969, as amended. The original amount of the loan was \$100,000.

General obligation bonds, installment purchase agreements, and loans are direct obligations and pledge the full faith and credit of the City. The bonds are issued as 15 to 20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds, installment purchase agreements, and loans currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental Activities</b>		
General government – installment purchase	5.625%	\$ 125,572
General government – loan (MDOT)	3.9%	<u>82,938</u>
		<b><u>\$ 208,510</u></b>
<b>Business-Type Activities</b>		
Marina – Limited tax general obligation bonds	4.14%	<b><u>\$ 5,500,000</u></b>

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Component Unit – Downtown Development Authority</b>		
General government – general obligation refunding bond	2.0% - 3.5%	\$ 1,820,000
General government – installment purchase	4.3% - 4.8%	<u>571,737</u>
		<b><u>\$ 2,391,737</u></b>

Annual debt service requirements to maturity for general obligation bonds, installment purchase agreements, and loans are as follows:

<u>Year Ending March 31,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 20,132	\$ 10,299	\$ -	\$ 246,721	\$ 354,347	\$ 65,901
2009	21,109	9,321	15,000	227,743	359,347	57,924
2010	22,134	8,296	35,000	227,122	364,347	49,109
2011	23,211	7,219	100,000	225,673	374,347	39,430
2012	24,342	6,089	160,000	221,532	379,349	28,451
2013-2017	97,582	11,865	1,160,000	988,196	560,000	28,888
2018-2022	-	-	1,700,000	703,311	-	-
2023-2026	<u>-</u>	<u>-</u>	<u>2,330,000</u>	<u>298,757</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 208,510</u></b>	<b><u>\$ 53,089</u></b>	<b><u>\$5,500,000</u></b>	<b><u>\$3,139,055</u></b>	<b><u>\$2,391,737</u></b>	<b><u>\$ 269,703</u></b>

**Revenue bonds.** The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year.



# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

*Changes in long-term debt.* Long-term debt activity for the year ended March 31, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
Installment purchase agreements	\$ 136,080	\$ -	\$ (10,508)	\$ 125,572	\$ 11,099
Loans	91,632	-	(8,694)	82,938	9,033
Compensated absences – sick	70,176	1,801	-	71,977	2,035
Compensated absences – vacation	144,633	5,755	-	150,388	2,843
<b>Total governmental activities</b>	<b>442,521</b>	<b>7,556</b>	<b>(19,202)</b>	<b>430,875</b>	<b>25,010</b>
<b>Business-type activities</b>					
General obligation bonds	-	5,500,000	-	5,500,000	-
<b>Total primary government</b>	<b>\$ 442,521</b>	<b>\$ 5,507,556</b>	<b>\$ (19,202)</b>	<b>\$ 5,930,875</b>	<b>\$ 25,010</b>
<b><u>Component unit</u></b>					
General obligation bonds	\$ 2,055,000	\$ -	\$ (235,000)	\$ 1,820,000	\$ 240,000
Installment purchase agreements	686,084	-	(114,347)	571,737	114,347
	<b>\$ 2,741,084</b>	<b>\$ -</b>	<b>\$ (349,347)</b>	<b>\$ 2,391,737</b>	<b>\$ 354,347</b>

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### G. Operating lease and commitment

The City has entered into an operating lease agreement with the Beaver Island Boat Company (“BIBCO”). BIBCO rents dock space and office space from the City. Both parties have agreed to a 5-year rental agreement, which BIBCO has a conditional right of renewal it may exercise five times. The City has also signed a \$30,000 promissory note payable to BIBCO in the event the City elects to terminate the rental agreement before 2028. Also, if the City were to terminate this agreement before 2028, then it would be liable to BIBCO for the balance on BIBCO’s note for the construction of a storage building, which approximates \$ 63,000 as of March 31, 2007. Projected operating lease proceeds through the year ended 2028 are as follows:

<b>Year Ended <u>March 31,</u></b>	<b><u>Amount</u></b>
2008	\$ 19,001
2009	19,759
2010	20,543
2011	21,355
2012	22,196
2013-2017	124,653
2018-2022	150,543
2023-2027	206,325
2028	<u>46,697</u>
	<b><u>\$ 631,072</u></b>

## IV. OTHER INFORMATION

### A. 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, 2007, the City carried insurance through various commercial carriers, including the Michigan Municipal League, 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.

### B. 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 August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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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 2006 levy were assessed and equalized at \$224,459,298 (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 2006-07 was 9.05 mills, with an additional 2.2337 mills levied for infrastructure improvements and an additional .7 mills levied for refuse.

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

### **C. Defined benefit pension plan**

#### **Plan Description**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

#### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate for the Communication Workers of America (CWA) is 13.06% of annual covered payroll, the Police and Fire (POLC) rate is 11.88% and the non-union rate is 16.82% of covered payroll. Communication Workers of America affiliated City employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended March 31, 2007 the City's annual pension cost of \$256,120 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 29 years.

### Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
3/31/05	\$ 211,482	100%	-
3/31/06	217,443	100%	-
3/31/07	256,120	100%	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Actuarial Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 5,064,673	\$ 6,797,909	\$ 1,733,246	75%	\$ 1,676,077	103%
12/31/03	5,521,367	7,238,779	1,717,412	76%	1,654,097	104%
12/31/04	6,023,710	8,423,342	2,399,632	72%	1,833,018	131%
12/31/05	6,372,687	8,733,885	2,361,198	73%	1,716,207	138%
12/31/06	6,813,506	9,464,744	2,651,238	72%	1,860,553	142%

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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### **D. Defined contribution plan**

The City provided pension benefits to its former 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 21.8% of the former 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 former City Manager. Contributions and interest are allocated to the account and benefits are fully vested at March 31, 2007.

The City Manager’s base payroll during the year ended March 31, 2007 was \$86,684. The current year calculation resulted in a benefit of \$18,897 of which \$2,640 was contributed to the plan and \$16,257 was provided as an increase to compensation.

### **E. Entitlement commitment**

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

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

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

# CITY OF CHARLEVOIX

## NOTES TO THE FINANCIAL STATEMENTS

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

<u>Year Ended</u> <u>December 31,</u>	<u>Campbell No. 3</u>		<u>Belle River</u>		<u>Combustion</u> <u>Turbine No. 1</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 154,148	\$ 60,760	\$ 258,802	\$ 194,878	44,604	75,933	\$ 457,554	\$ 331,571
2009	162,579	52,050	272,333	181,291	46,492	73,926	481,404	307,267
2010	135,439	44,870	286,275	167,356	48,616	71,834	470,330	284,060
2011	141,763	39,255	301,373	152,327	50,976	69,646	494,112	261,228
2012	148,087	33,313	317,130	136,567	53,100	67,352	518,317	237,232
2013-2017	628,711	74,426	1,853,280	414,990	310,576	291,884	2,792,567	781,300
2018-2022	-	-	431,062	22,631	401,200	201,338	832,262	223,969
2023-2027	-	-	-	-	771,012	192,987	771,012	192,987
<b>Total</b>	<b><u>\$1,370,727</u></b>	<b><u>\$ 304,674</u></b>	<b><u>\$3,720,255</u></b>	<b><u>\$1,270,040</u></b>	<b><u>\$1,726,576</u></b>	<b><u>\$1,044,900</u></b>	<b><u>\$6,817,558</u></b>	<b><u>\$2,619,614</u></b>

During the year ended March 31, 2007, the City purchased power from the Campbell No. 3, Belle River, and Combustion Turbine No. 1 Units.

### F. Single Audit

The Michigan Department of Transportation (MDOT) requires Airports to report total federal awards for planning and construction pertaining to their facility.

During the year ended March 31, 2007 the Airport of the City of Charlevoix expended federal awards in the amount of \$ 220,058. The entire amount of these expenditures represent Department of Transportation Federal Aviation Administration grant proceeds expended on airport improvement projects under the Airport Improvement Program, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the City of Charlevoix Airport; therefore, a single audit for the City of Charlevoix Airport is not required.

### G. Subsequent events

The City issued limited tax general obligation bonds in August 2006 in the amount of \$5,500,000 for the reconstruction of the marina and park area developed by the Charlevoix DDA. Marina and park area reconstruction costs totaled approximately \$2.5 million at March 31, 2007. The project is expected to be completed by November 2007.

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

**CITY OF CHARLEVOIX**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**MARCH 31, 2007**

	<b>Capital Projects Funds</b>				
	<b>Fire Truck and Ambulance</b>	<b>Industrial Park</b>	<b>Infrastructure Improvements</b>	<b>Recreation Improvements</b>	<b>Mt. McSauba Improvements</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 27,423	\$ 53,413	\$ 256,899	\$ 892	\$ 13,268
Investments	55,000	90,000	325,000	-	40,000
Accounts receivable	-	-	391	-	-
Taxes receivable	-	-	12,586	-	-
Interest receivable	265	-	1,571	-	-
<b>Total assets</b>	<b>\$ 82,688</b>	<b>\$ 143,413</b>	<b>\$ 596,447</b>	<b>\$ 892</b>	<b>\$ 53,268</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 3,446	\$ -	\$ -
Due to other funds	-	-	10,655	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>14,101</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>					
Reserved for perpetual care	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	-	-	161,200	-	48,900
Undesignated	82,688	143,413	421,146	892	4,368
<b>Total fund balances</b>	<b>82,688</b>	<b>143,413</b>	<b>582,346</b>	<b>892</b>	<b>53,268</b>
<b>Total liabilities and fund balances</b>	<b>\$ 82,688</b>	<b>\$ 143,413</b>	<b>\$ 596,447</b>	<b>\$ 892</b>	<b>\$ 53,268</b>



		<b>Permanent Fund</b>		<b>Total Nonmajor Governmental Funds</b>	
<b>Downtown Parking</b>	<b>Total</b>	<b>Cemetery Care</b>			
\$ 80,233	\$ 432,128	\$ 102,709	\$ 534,837		
40,000	550,000	220,000	770,000		
-	391	-	391		
-	12,586	-	12,586		
161	1,997	536	2,533		
<b>\$ 120,394</b>	<b>\$ 997,102</b>	<b>\$ 323,245</b>	<b>\$ 1,320,347</b>		
\$ -	\$ 3,446	\$ -	\$ 3,446		
-	10,655	-	10,655		
-	<b>14,101</b>	-	<b>14,101</b>		
-	-	323,245	323,245		
-	210,100	-	210,100		
120,394	772,901	-	772,901		
<b>120,394</b>	<b>983,001</b>	<b>323,245</b>	<b>1,306,246</b>		
<b>\$ 120,394</b>	<b>\$ 997,102</b>	<b>\$ 323,245</b>	<b>\$ 1,320,347</b>		

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Capital Projects Funds</b>				
	<b>Fire Truck and Ambulance</b>	<b>Industrial Park</b>	<b>Infrastructure Improvements</b>	<b>Recreation Improvements</b>	<b>Mt. McSauba Improvements</b>
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ 456,928	\$ -	\$ -
Charges for services	-	-	-	-	-
Interest	3,783	5,165	114,921	195	2,124
Rents and royalties	-	-	-	-	13,862
Other revenue	-	500	-	1	-
<b>Total revenues</b>	<b>3,783</b>	<b>5,665</b>	<b>571,849</b>	<b>196</b>	<b>15,986</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	-	10,824	68,302	-	-
Contracted services	-	-	-	-	-
<b>Total current expenditures</b>	<b>-</b>	<b>10,824</b>	<b>68,302</b>	<b>-</b>	<b>-</b>
<b>Revenues over (under) expenditures</b>	<b>3,783</b>	<b>(5,159)</b>	<b>503,547</b>	<b>196</b>	<b>15,986</b>
<b>Other financing sources (uses)</b>					
Transfers out	-	-	(60,000)	-	(12,000)
<b>Net change in fund balances</b>	<b>3,783</b>	<b>(5,159)</b>	<b>443,547</b>	<b>196</b>	<b>3,986</b>
Fund balances, beginning of year	78,905	148,572	138,799	696	49,282
<b>Fund balances, end of year</b>	<b>\$ 82,688</b>	<b>\$ 143,413</b>	<b>\$ 582,346</b>	<b>\$ 892</b>	<b>\$ 53,268</b>

		<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Downtown Parking</b>	<b>Total</b>	<b>Cemetery Care</b>	
\$ -	\$ 456,928	\$ -	\$ 456,928
-	-	8,525	8,525
5,503	131,691	15,627	147,318
-	13,862	-	13,862
-	501	-	501
<b>5,503</b>	<b>602,982</b>	<b>24,152</b>	<b>627,134</b>
-	79,126	-	79,126
-	-	54,274	54,274
-	<b>79,126</b>	<b>54,274</b>	<b>133,400</b>
<b>5,503</b>	<b>523,856</b>	<b>(30,122)</b>	<b>493,734</b>
-	(72,000)	-	(72,000)
<b>5,503</b>	<b>451,856</b>	<b>(30,122)</b>	<b>421,734</b>
114,891	531,145	353,367	884,512
<b>\$ 120,394</b>	<b>\$ 983,001</b>	<b>\$ 323,245</b>	<b>\$ 1,306,246</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**

**MARCH 31, 2007**

	<b>Employee Fringe Benefits</b>	<b>Motor Vehicle</b>	<b>DPW Site</b>	<b>Total</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 200,181	\$ 220,816	\$ 11,709	\$ 432,706
Investments	35,000	120,000	-	155,000
Interest receivable	881	489	148	1,518
Due from other funds	-	-	10,655	10,655
<b>Total current assets</b>	<b>244,006</b>	<b>341,305</b>	<b>22,512</b>	<b>607,823</b>
<b>Noncurrent assets</b>				
<b>Capital assets, net</b>				
	-	581,928	118,974	700,902
<b>Total assets</b>	<b>244,006</b>	<b>923,233</b>	<b>141,486</b>	<b>1,308,725</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	9,944	5,880	-	15,824
Accrued expenses	23,071	4,460	-	27,531
Compensated absences	2,843	-	-	2,843
Due to other funds	-	-	14,618	14,618
<b>Total current liabilities</b>	<b>35,858</b>	<b>10,340</b>	<b>14,618</b>	<b>60,816</b>
<b>Noncurrent liabilities</b>				
Compensated absences	147,545	-	-	147,545
<b>Total liabilities</b>	<b>183,403</b>	<b>10,340</b>	<b>14,618</b>	<b>208,361</b>
<b>Net assets</b>				
Invested in capital assets	-	581,928	118,974	700,902
Unrestricted	60,603	330,965	7,894	399,462
<b>Total net assets</b>	<b>\$ 60,603</b>	<b>\$ 912,893</b>	<b>\$ 126,868</b>	<b>\$ 1,100,364</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Employee Fringe Benefits</b>	<b>Motor Vehicle</b>	<b>DPW Site</b>	<b>Total</b>
<b>Operating revenues</b>				
Charges for services	<b>\$ 1,574,023</b>	<b>\$ 566,964</b>	<b>\$ -</b>	<b>\$ 2,140,987</b>
<b>Operating expenses</b>				
Personal services	1,445,045	146,153	-	1,591,198
Contractual services	90,452	14,703	-	105,155
Supplies	-	72,084	-	72,084
Utilities	-	11,831	-	11,831
Repairs and maintenance	-	66,894	-	66,894
Depreciation	-	125,961	10,990	136,951
Miscellaneous	1,858	1,476	-	3,334
<b>Total operating expenses</b>	<b>1,537,355</b>	<b>439,102</b>	<b>10,990</b>	<b>1,987,447</b>
<b>Operating income (loss)</b>	<b>36,668</b>	<b>127,862</b>	<b>(10,990)</b>	<b>153,540</b>
<b>Nonoperating revenues (expenses)</b>				
Interest revenue	4,235	11,859	257	16,351
Gain on sale of capital asset	-	12,154	-	12,154
Other revenue	16,299	2,087	-	18,386
<b>Total nonoperating revenues (expenses)</b>	<b>20,534</b>	<b>26,100</b>	<b>257</b>	<b>46,891</b>
<b>Income (loss) before transfers</b>	<b>57,202</b>	<b>153,962</b>	<b>(10,733)</b>	<b>200,431</b>
<b>Transfers</b>				
Transfers in	-	-	137,600	137,600
Transfers (out)	-	(21,700)	-	(21,700)
<b>Total transfers</b>	<b>-</b>	<b>(21,700)</b>	<b>137,600</b>	<b>115,900</b>
<b>Change in net assets</b>	<b>57,202</b>	<b>132,262</b>	<b>126,867</b>	<b>316,331</b>
Net assets, beginning of year	3,401	780,631	1	784,033
<b>Net assets, end of year</b>	<b>\$ 60,603</b>	<b>\$ 912,893</b>	<b>\$ 126,868</b>	<b>\$ 1,100,364</b>

**CITY OF CHARLEVOIX**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Employee Fringe Benefits</b>	<b>Motor Vehicle</b>	<b>DPW Site</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Cash received from interfund services	\$ 1,566,079	\$ 566,964	\$ -	\$ 2,133,043
Cash payments to employees	(1,428,654)	(142,740)	-	(1,571,394)
Cash payments to suppliers for goods and services	(93,018)	(174,935)	-	(267,953)
<b>Net cash provided by (used in) operating activities</b>	<b>44,407</b>	<b>249,289</b>	<b>-</b>	<b>293,696</b>
<b>Cash flows from noncapital financing activities</b>				
Miscellaneous income	16,299	2,087	-	18,386
Repayment of amount due to other funds	-	4,460	(126,000)	(121,540)
Transfers in from other funds	-	-	137,600	137,600
Transfers out to other funds	-	(21,700)	-	(21,700)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>16,299</b>	<b>(15,153)</b>	<b>11,600</b>	<b>12,746</b>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from sale of capital assets	-	12,154	-	12,154
Purchase of capital assets	-	(108,336)	-	(108,336)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>-</b>	<b>(96,182)</b>	<b>-</b>	<b>(96,182)</b>
<b>Cash flows from investing activities</b>				
Proceeds from matured investments	35,000	120,000	-	155,000
Purchase of investments	(35,000)	(120,000)	-	(155,000)
Investment income	4,118	12,629	109	16,856
<b>Net cash provided by (used in) investing activities</b>	<b>4,118</b>	<b>12,629</b>	<b>109</b>	<b>16,856</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>64,824</b>	<b>150,583</b>	<b>11,709</b>	<b>227,116</b>
Cash and cash equivalents, beginning of year	135,357	70,233	-	205,590
<b>Cash and cash equivalents, end of year</b>	<b>\$ 200,181</b>	<b>\$ 220,816</b>	<b>\$ 11,709</b>	<b>\$ 432,706</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 36,668	\$ 127,862	\$ (10,990)	\$ 153,540
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	125,961	10,990	136,951
Changes in assets and liabilities				
Accounts receivable	(7,944)	-	-	(7,944)
Accounts payable	(708)	(7,947)	-	(8,655)
Accrued liabilities	10,636	3,413	-	14,049
Accrued compensated absences	5,755	-	-	5,755
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 44,407</b>	<b>\$ 249,289</b>	<b>\$ -</b>	<b>\$ 293,696</b>
<b>Noncash non-capital financing activities</b>				
Transfer due from Infrastructure Improvements fund			<b>\$ 10,990</b>	

**CITY OF CHARLEVOIX**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**CURRENT TAX COLLECTION FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

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	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
<b>Assets</b>				
Cash	<u>\$ 58,974</u>	<u>\$ 34,108,166</u>	<u>\$ (34,110,956)</u>	<u>\$ 56,184</u>
<b>Liabilities</b>				
Undistributed receipts	<u>\$ 58,974</u>	<u>\$ 40,164,619</u>	<u>\$ (40,167,409)</u>	<u>\$ 56,184</u>

**CITY OF CHARLEVOIX**

**BALANCE SHEET AND STATEMENT OF NET ASSETS  
COMPONENT UNIT**

**MARCH 31, 2007**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 197,127	\$ -	\$ 197,127
Cash with fiscal agent	254,315	-	254,315
Investments	416,702	-	416,702
Accounts receivable	112	-	112
Taxes receivable	757	-	757
Interest receivable	7,727	-	7,727
Other assets	-	31,513	31,513
Capital assets not being depreciated	-	923,071	923,071
Capital assets, net of depreciaton	-	4,177,519	4,177,519
<b>Total assets</b>	<b>\$ 876,740</b>	<b>5,132,103</b>	<b>6,008,843</b>
<b>Liabilities</b>			
Accounts payable	\$ 17,885	-	17,885
Accrued liabilities	1,647	14,646	16,293
Noncurrent liabilities			
Long term debt due within one year	-	354,347	354,347
Long term debt due in more than one year	-	2,037,390	2,037,390
<b>Total liabilities</b>	<b>19,532</b>	<b>2,406,383</b>	<b>2,425,915</b>
<b>Fund balance</b>			
Unreserved	857,208	(857,208)	-
<b>Total liabilities and fund balance</b>	<b>\$ 876,740</b>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		2,708,853	2,708,853
Unrestricted		874,075	874,075
<b>Total net assets</b>		<b>\$ 3,582,928</b>	<b>\$ 3,582,928</b>



**CITY OF CHARLEVOIX**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES  
COMPONENT UNIT**

**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Property taxes	\$ 722,640	\$ -	\$ 722,640
Rents	18,268	-	18,268
State revenue	22,320	-	22,320
Interest	43,982	-	43,982
<b>Total revenues</b>	<b>807,210</b>	<b>-</b>	<b>807,210</b>
<b>Expenditures / expenses</b>			
Current			
Other functions	448,704	226,413	675,117
Debt service			
Principal	349,347	(349,347)	-
Interest and fiscal charges	75,281	(75,281)	-
<b>Total expenditures / expenses</b>	<b>873,332</b>	<b>(198,215)</b>	<b>675,117</b>
<b>Change in fund balance / net assets</b>	<b>(66,122)</b>	<b>198,215</b>	<b>132,093</b>
Fund balance / net assets, beginning of year	923,330	2,527,505	3,450,835
<b>Fund balance / net assets, end of year</b>	<b>\$ 857,208</b>	<b>\$ 2,725,720</b>	<b>\$ 3,582,928</b>



**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**

October 8, 2007

City Council  
City of Charlevoix  
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Charlevoix* (the "City"), as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated October 8, 2007.

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

A handwritten signature in cursive script that reads "Lehmann Johnson".